UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 001-37622

Square, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**80-0429876**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

1455 Market Street, Suite 600
San Francisco, CA 94103
(Address of principal executive offices, including zip code)

(415) 375-3176
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0000001 par value per share	SQ	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 29, 2021, the number of shares of the registrant's Class A common stock outstanding was 399,174,867 and the number of shares of the registrant's Class B common stock outstanding was 62,100,770.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “appears,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about our future financial performance, the impact of the COVID-19 pandemic, government stimulus programs in responses thereto, the timing of economic recovery and shifts in consumer behaviors on our business, customers, and employees, our expectations regarding our proposed acquisition of Afterpay, including expected time to close, our expectations regarding transaction and loan losses, the adequacy of our allowance for loan losses on loans held for investment, or increased delinquencies, and the impact of inaccurate estimates or inadequate reserves, the potential exposure as a non-bank participant in the Paycheck Protection Program ("PPP") and its effect on our liquidity and financial results and the ability of our customers to comply with requirements and otherwise perform with respect to loans obtained under such program, our anticipated growth and growth strategies and our ability to effectively manage that growth, our ability to invest in and develop our products and services to operate with changing technology, the expected benefits of our products to our customers and the impact of our products on our business, and our expectations regarding Gross Payment Volume (GPV) and revenue, including our expectations regarding the Cash App and Seller ecosystems, our expectations regarding product launches and the launch of banking operations of Square Financial Services, the expected impact of our recent acquisitions, our plans with respect to patents and other intellectual property, our expectations regarding litigation, our expectations regarding share-based compensation, our expectations regarding the impacts of accounting guidance and the timing of our compliance therewith, our expectations regarding restricted cash, and the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements.

We have based the forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

All forward-looking statements are based on information and estimates available to the Company at the time of this Quarterly Report on Form 10-Q and are not guarantees of future performance. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

Part I—Financial Information

Item 1. Financial Statements

SQUARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share data)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 4,514,609	$ 3,158,058
Investments in short-term debt securities	868,809	695,112
Settlements receivable	1,211,886	1,024,895
Customer funds	2,649,114	2,037,832
Loans held for sale	708,086	462,665
Other current assets	609,533	383,067
Total current assets	10,562,037	7,761,629
Property and equipment, net	275,286	233,520
Goodwill	519,548	316,701
Acquired intangible assets, net	268,692	137,612
Investments in long-term debt securities	1,451,107	463,950
Operating lease right-of-use assets	448,248	456,888
Other non-current assets	384,508	499,250
Total assets	$ 13,909,426	$ 9,869,550
Liabilities and Stockholders' Equity		
Current liabilities:		
Customers payable	$ 3,858,708	$ 3,009,051
Settlements payable	249,802	239,362
Accrued expenses and other current liabilities	654,495	360,850
Operating lease liabilities, current	60,482	52,747
PPP Liquidity Facility advances	725,658	464,094
Total current liabilities	5,549,145	4,126,104
Long-term debt	4,737,829	2,586,924
Operating lease liabilities, non-current	390,690	389,662
Other non-current liabilities	227,048	85,291
Total liabilities	10,904,712	7,187,981
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $0.0000001 par value: 100,000,000 shares authorized at September 30, 2021 and December 31, 2020. None issued and outstanding at September 30, 2021 and December 31, 2020.	—	—
Class A common stock, $0.0000001 par value: 1,000,000,000 shares authorized at September 30, 2021 and December 31, 2020; 398,878,883 and 390,187,079 issued and outstanding at September 30, 2021 and December 31, 2020, respectively.	—	—
Class B common stock, $0.0000001 par value: 500,000,000 shares authorized at September 30, 2021 and December 31, 2020; 62,100,770 and 65,997,697 issued and outstanding at September 30, 2021 and December 31, 2020, respectively.	—	—
Additional paid-in capital	2,918,372	2,955,464
Accumulated other comprehensive income (loss)	(7,411)	23,328
Retained earnings (accumulated deficit)	48,864	(297,223)
Total stockholders' equity attributable to common stockholders	2,959,825	2,681,569
Noncontrolling interests	44,889	—
Total stockholders' equity	3,004,714	2,681,569
Total liabilities and stockholders' equity	$ 13,909,426	$ 9,869,550

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Transaction-based revenue	$ 1,297,040	$ 925,294	$ 3,484,245	$ 2,365,967
Subscription and services-based revenue	694,770	447,522	1,937,629	1,090,032
Hardware revenue	37,255	27,294	109,769	67,291
Bitcoin revenue	1,815,662	1,633,764	8,051,026	2,815,318
Total net revenue	3,844,727	3,033,874	13,582,669	6,338,608
Cost of revenue:				
Transaction-based costs	754,276	524,056	1,965,894	1,379,658
Subscription and services-based costs	132,046	68,528	346,144	161,801
Hardware costs	51,150	45,220	153,035	108,348
Bitcoin costs	1,774,040	1,601,615	7,879,816	2,759,082
Total cost of revenue	2,711,512	2,239,419	10,344,889	4,408,889
Gross profit	1,133,215	794,455	3,237,780	1,929,719
Operating expenses:				
Product development	366,587	227,550	1,003,238	631,156
Sales and marketing	407,850	348,463	1,132,411	781,094
General and administrative	267,476	153,902	684,405	419,783
Transaction and loan losses	62,306	15,198	130,874	161,684
Bitcoin impairment losses	6,000	—	71,126	—
Total operating expenses	1,110,219	745,113	3,022,054	1,993,717
Operating income (loss)	22,996	49,342	215,726	(63,998)
Interest expense, net	13,409	14,980	20,126	38,955
Other expense (income), net	12,011	(784)	(36,249)	(20,513)
Income (loss) before income tax	(2,424)	35,146	231,849	(82,440)
Provision (benefit) for income taxes	452	(1,369)	(7,961)	(1,586)
Net income (loss)	(2,876)	36,515	239,810	(80,854)
Net income (loss) attributable to noncontrolling interests	(2,960)	—	(3,303)	—
Net income (loss) attributable to common stockholders	$ 84	$ 36,515	$ 243,113	$ (80,854)
Net income (loss) per share attributable to common stockholders:				
Basic	$ 0.00	$ 0.08	$ 0.53	$ (0.18)
Diluted	$ 0.00	$ 0.07	$ 0.48	$ (0.18)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	460,654	444,458	457,039	439,855
Diluted	504,120	488,069	520,204	439,855

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net income (loss)	$ (2,876)	$ 36,515	$ 239,810	$ (80,854)
Net foreign currency translation adjustments	(14,145)	9,111	(25,656)	7,090
Net unrealized gain (loss) on marketable debt securities	(1,104)	(1,567)	(5,083)	3,191
Total comprehensive income (loss)	$ (18,125)	$ 44,059	$ 209,071	$ (70,573)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income (loss)	$ 239,810	$ (80,854)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	95,707	61,741
Non-cash interest and other	20,368	52,384
Loss on extinguishment of long-term debt	—	2,393
Share-based compensation	429,999	284,129
Gain on revaluation of equity investment	(41,007)	(20,999)
Bitcoin impairment losses	71,126	—
Non-cash lease expense	61,978	50,782
Transaction and loan losses	130,874	161,684
Change in deferred income taxes	(5,224)	(3,375)
Changes in operating assets and liabilities:		
Settlements receivable	(337,893)	(340,010)
Customer funds	(591,982)	(885,259)
Purchases and originations of loans	(2,285,306)	(1,620,057)
Sales, principal payments, and forgiveness of loans	1,952,142	1,226,994
Customers payable	846,906	1,445,608
Settlements payable	10,440	54,871
Other assets and liabilities	74,838	(129,155)
Net cash provided by operating activities	672,776	260,877
Cash flows from investing activities:		
Purchase of marketable debt securities	(2,343,446)	(966,278)
Proceeds from maturities of marketable debt securities	609,377	404,931
Proceeds from sale of marketable debt securities	558,724	432,162
Purchase of marketable debt securities from customer funds	(488,851)	(552,411)
Proceeds from maturities of marketable debt securities from customer funds	456,481	237,000
Proceeds from sale of marketable debt securities from customer funds	10,000	28,457
Purchase of property and equipment	(98,028)	(86,353)
Purchase of bitcoin investments	(170,000)	—
Purchase of other investments	(47,550)	—
Proceeds from sale of equity investments	420,644	—
Business combinations, net of cash acquired	(163,970)	(29,221)
Net cash used in investing activities	(1,256,619)	(531,713)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes, net	—	986,241
Purchase of convertible senior note hedges	—	(149,200)
Proceeds from issuance of warrants	—	99,500
Proceeds from issuance of senior unsecured notes, net	1,971,828	—
Proceeds from PPP Liquidity Facility advances	681,542	473,496
Repayments of PPP Liquidity Facility advances	(419,978)	—
Payments for tax withholding related to vesting of restricted stock units	(312,406)	(182,607)
Proceeds from the exercise of stock options and purchases under the employee stock purchase plan	84,866	106,600
Other financing activities	(7,112)	(2,606)
Net cash provided by financing activities	1,998,740	1,331,424
Effect of foreign exchange rate on cash and cash equivalents	(14,311)	772
Net increase in cash, cash equivalents, and restricted cash	1,400,586	1,061,360
Cash, cash equivalents, and restricted cash, beginning of period	3,201,863	1,098,706
Cash, cash equivalents, and restricted cash, end of period	$ 4,602,449	$ 2,160,066

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except for number of shares)

	Class A and B common stock		Additional paid-in	Accumulated other comprehensive	Retained earnings (Accumulated	Noncontrolling	Total stockholders'
	Shares	Amount	capital	income	deficit)	interests	equity
Balance at December 31, 2020	456,184,776	$ —	$ 2,955,464	$ 23,328	$ (297,223)	$ —	$ 2,681,569
Cumulative adjustment due to adoption of ASU No. 2020-06	—	—	(502,708)	—	102,974	—	(399,734)
Net income	—	—	—	—	39,008	—	39,008
Shares issued in connection with employee stock plans	4,311,094	—	32,891	—	—	—	32,891
Change in other comprehensive loss	—	—	—	(13,129)	—	—	(13,129)
Share-based compensation	—	—	121,965	—	—	—	121,965
Tax withholding related to vesting of restricted stock units	(669,076)	—	(152,013)	—	—	—	(152,013)
Issuance of common stock in conjunction with the conversion of convertible notes	166,967	—	3,816	—	—	—	3,816
Exercise of bond hedges in conjunction with the conversion of convertible notes	(5,325,320)	—	—	—	—	—	—
Balance at March 31, 2021	454,668,441	$ —	$ 2,459,415	$ 10,199	$ (155,241)	$ —	$ 2,314,373
Net income	—	—	—	—	204,021	(343)	203,678
Shares issued in connection with employee stock plans	2,410,350	—	39,526	—	—	—	39,526
Change in other comprehensive loss	—	—	—	(2,361)	—	—	(2,361)
Share-based compensation	—	—	150,367	—	—	—	150,367
Tax withholding related to vesting of restricted stock units	(602,961)	—	(140,212)	—	—	—	(140,212)
Issuance of common stock in conjunction with the conversion of convertible notes	1,456,748	—	113,067	—	—	—	113,067
Exercise of bond hedges in conjunction with the conversion of convertible notes	(150,299)	—	—	—	—	—	—
Issuance of common stock in connection with business combination	41,138	—	10,071	—	—	—	10,071
Noncontrolling interests in connection with business combination	—	—	—	—	—	48,192	48,192
Balance at June 30, 2021	457,823,417	—	$ 2,632,234	$ 7,838	$ 48,780	$ 47,849	$ 2,736,701
Net loss	—	—	—	—	84	(2,960)	(2,876)
Shares issued in connection with employee stock plans	3,065,151		12,711	—	—	—	12,711
Issuance of common stock in connection with business combination	77,305		18,664	—	—	—	18,664

Change in other comprehensive loss	—		—	(15,249)	—	—	(15,249)
Share-based compensation	—		168,585	—	—	—	168,585
Tax withholding related to vesting of restricted stock units	(82,374)		(20,181)	—	—	—	(20,181)
Issuance of common stock in conjunction with the conversion of convertible notes	1,371,519		106,359	—	—	—	106,359
Exercise of bond hedges in conjunction with the conversion of convertible notes	(1,275,365)	—	—	—	—	—	—
Balance at September 30, 2021	460,979,653	—	$ 2,918,372	$ (7,411)	$ 48,864	$ 44,889	$ 3,004,714

	Class A and B common stock		**Additional paid-in**	**Accumulated other comprehensive**	**Accumulated**	**Noncontrolling**	**Total stockholders'**
	Shares	**Amount**	**capital**	**income (loss)**	**deficit**	**interests**	**equity**
Balance at December 31, 2019	432,796,720	$ —	$ 2,223,749	$ 1,629	$ (510,328)	$ —	$ 1,715,050
Net loss	—	—	—	—	(105,891)	—	(105,891)
Shares issued in connection with employee stock plans	5,222,525	—	31,406	—	—	—	31,406
Issuance of common stock in connection with business combination	357,017	—	14,999	—	—	—	14,999
Change in other comprehensive loss	—	—	—	(5,061)	—	—	(5,061)
Share-based compensation	—	—	79,562	—	—	—	79,562
Tax withholding related to vesting of restricted stock units	(722,606)	—	(48,772)	—	—	—	(48,772)
Conversion feature of convertible senior notes, due 2025, net of allocated costs	—	—	152,258	—	—	—	152,258
Purchase of bond hedges in conjunction with issuance of convertible senior notes, due 2025	—	—	(149,200)	—	—	—	(149,200)
Sale of warrants in conjunction with issuance of convertible senior notes, due 2025	—	—	99,500	—	—	—	99,500
Issuance of common stock in conjunction with the conversion of convertible notes	1,109,980	—	24,094	—	—	—	24,094
Balance at March 31, 2020	438,763,636	$ —	$ 2,427,596	$ (3,432)	$ (616,219)	$ —	$ 1,807,945
Net loss	—	—	—	—	(11,478)	—	(11,478)
Shares issued in connection with employee stock plans	4,802,969	—	46,679	—	—	—	46,679
Issuance of common stock in connection with business combination	250,957	—	20,320	—	—	—	20,320
Change in other comprehensive loss	—	—	—	7,798	—	—	7,798
Share-based compensation	—	—	99,925	—	—	—	99,925
Tax withholding related to vesting of restricted stock units	(703,895)	—	(44,882)	—	—	—	(44,882)

Exercise of bond hedges in conjunction with the conversion of convertible notes	(724,316)	—	—	—	—	—	—
Balance at June 30, 2020	442,389,351	$ —	$ 2,549,638	$ 4,366	$ (627,697)	$ —	$ 1,926,307
Net income	—	—	—	—	36,515	—	36,515
Shares issued in connection with employee stock plans	4,246,489	—	28,514	—	—	—	28,514
Change in other comprehensive loss	—	—	—	7,544	—	—	7,544
Share-based compensation	—	—	114,172	—	—	—	114,172
Tax withholding related to vesting of restricted stock units	(694,266)	—	(88,953)	—	—	—	(88,953)
Issuance of common stock in conjunction with the conversion of convertible notes	1,753,623	—	38,736	—	—	—	38,736
Balance at September 30, 2020	447,695,197	$ —	$ 2,642,107	$ 11,910	$ (591,182)	$ —	$ 2,062,835

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Square, Inc. (together with its subsidiaries, "Square" or the "Company") creates tools that empower businesses, sellers and individuals to participate in the economy. Square enables sellers to accept card payments and also provides reporting and analytics, and next-day settlement. Square’s point-of-sale software and other business services help sellers manage inventory, locations, and employees; access financing; engage buyers; build a website or online store; and grow sales. Cash App is an easy way for people to store, send, receive, spend, and invest money.

On March 1, 2021, Square Financial Services, Inc. ("Square Financial Services"), a wholly-owned subsidiary of the Company, began its banking operations after its industrial loan company charter was approved by the Federal Deposit Insurance Corporation ("FDIC") and the State of Utah. On April 30, 2021, the Company completed the acquisition of a majority ownership interest in TIDAL, a global music and entertainment platform that brings fans and artists together through unique music, content, and experiences. In the second quarter of 2021, Square launched TBD, a bitcoin-focused business established to build an open developer platform with the goal of making it easy to create non-custodial, permissionless, and decentralized financial services.

Square was founded in 2009 and is headquartered in San Francisco, with offices in the United States, Canada, Japan, Australia, Ireland, the United Kingdom, Spain, Lithuania, and Norway.

Proposed acquisition of Afterpay Limited

On August 1, 2021, the Company entered into a definitive agreement with Afterpay Limited (“Afterpay”) to acquire Afterpay by way of a court-approved Scheme of Arrangement. See Note 8, *Acquisitions* for further details.

Basis of Presentation

The accompanying interim condensed consolidated financial statements of the Company are unaudited. These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The December 31, 2020 condensed consolidated balance sheet was derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to state fairly the Company's consolidated financial position, results of operations, comprehensive income (loss), and cash flows for the interim periods. The condensed consolidated financial statements include the financial statements of Square and its wholly-owned and majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Minority interests are recorded as a noncontrolling interest, which is reported as a component of stockholders' equity on the condensed consolidated balance sheets. The interim results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021, or for any other future annual or interim period.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. Actual results could differ from the Company's estimates. To the extent that there are material differences between these estimates and actual results, the Company's financial condition or operating results will be materially affected. The Company bases its estimates on current and past experience, to the extent that historical experience is predictive of future performance and other assumptions that the Company believes are reasonable under the circumstances. The Company evaluates these estimates on an ongoing basis.

Estimates, judgments, and assumptions in these condensed consolidated financial statements include, but are not limited to, those related to revenue recognition, accrued transaction losses, contingencies, valuation of the debt component of convertible senior notes, valuation of loans held for sale including loans under the Paycheck Protection Program ("PPP"), the allowance for loan loss reserves for loans held for investment, valuation of goodwill and acquired intangible assets, the determination of pre-acquisition contingencies associated with business combinations, accrued royalties, deferred revenue, determination of income and other taxes, operating and financing lease right-of-use assets and related liabilities, assessing the likelihood of adverse outcomes from claims and disputes, and share-based compensation.

The Company continues to be impacted by the COVID-19 pandemic. The Company continued to experience improvements in its business as the majority of U.S. markets transitioned to varying states of economic recovery and reopenings. However, the emergence of new and more transmissible variants of COVID-19 could lead to a possible resurgence of the virus, particularly in populations with low vaccination rates, and has resulted in new restrictions in certain geographies and among certain businesses. The Company will continue to monitor the carrying values of its assets and liabilities based on estimates, judgments and circumstances it is aware of and consider the effects and trends of COVID-19.

The Company's estimates of accrued transaction losses and valuation of loans held for sale are based on historical experience, adjusted for market data relevant to the current economic environment including COVID-19 trends. The Company will continue to update its estimates as developments occur and additional information is obtained. See Note 11, *Other Consolidated Balance Sheet Components (Current)*, for further details on transaction losses and Note 5, *Fair Value of Financial Instruments*, for further details on amortized cost over fair value of the loans.

Concentration of Credit Risk

For the three and nine months ended September 30, 2021 and September 30, 2020, the Company had no customer that accounted for greater than 10% of total net revenue.

The Company had two third-party payment processors that represented approximately 50% and 34% of settlements receivable as of September 30, 2021. As of December 31, 2020, there were two parties that represented approximately 59% and 27% of settlements receivable. All other third-party processors were insignificant.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable debt securities, settlements receivable, customer funds, reverse repurchase agreements, loans held for sale, and loans held for investment. The associated risk of concentration for cash and cash equivalents and restricted cash is mitigated by banking with creditworthy institutions. At certain times, amounts on deposit exceed federal deposit insurance limits. The associated risk of concentration for marketable debt securities is mitigated by holding a diversified portfolio of highly rated investments. Settlements receivable are amounts due from well-established payment processing companies and normally take one or two business days to settle which mitigates the associated risk of concentration. The associated risk with reverse repurchase agreements is mitigated by the securities held as collateral and their short-term nature. The associated risk of concentration for loans held for sale and loans held for investment are partially mitigated by credit evaluations that are performed prior to facilitating the offering of and origination of loans and ongoing performance monitoring of the Company's loan customers. The risk associated with the PPP loans is considered low due to government guarantees on those loans.

Sales and Marketing Expenses

Advertising costs are expensed as incurred and included in sales and marketing expense in the condensed consolidated statements of operations. Total advertising costs were $123.1 million and $296.4 million for the three and nine months ended September 30, 2021, respectively, compared to $75.7 million and $145.8 million for the three and nine months ended September 30, 2020, respectively.

In addition, services, incentives, and other costs to customers that are not directly related to a revenue generating transaction are recorded as sales and marketing expenses, as the Company considers these to be marketing costs to encourage the usage of Cash App. These expenses, which include, but are not limited to, Cash App peer-to-peer processing costs and related transaction losses, card issuance costs, customer referral bonuses, promotional giveaways, and certain Cash App crypto network operating costs were $183.2 million and $555.9 million, for the three and nine months ended September 30, 2021, respectively, compared to $208.4 million and $465.1 million for the three and nine months ended September 30, 2020, respectively.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted, but only at the beginning of the fiscal year. The Company early adopted the new guidance on January 1, 2021 using the modified retrospective approach and recorded a cumulative effect upon adoption of $103.0 million as a reduction to accumulated deficit and a reduction to other paid in capital of $502.7 million related to amounts attributable to conversion options that had previously been recorded in equity. Additionally, the Company recorded an increase to its convertible notes balance by an aggregate amount of $399.7 million as a result of the reversal of the separation of the convertible debt between debt and equity. The adoption of this standard also significantly decreased the amount of non-cash interest expense to be recognized in future periods as a result of eliminating the discount associated with the equity component. There was no impact to the Company's statements of cash flows as the result of the adoption of ASU No. 2020-06.

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements ("Codification")*. The update provides incremental improvements on various topics in the Codification to provide clarification, correct errors in, and to provide simplification on a variety of topics. Among other items, the guidance includes presentation disclosures for the amount of income tax expense or benefit related to other comprehensive income. The amendments are effective for public entities in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this guidance effective January 1, 2021 and has applied the guidance prospectively. The adoption of this guidance did not have a material impact on the Company's financial statements and related disclosures.

Recently issued accounting pronouncements not yet adopted

In July 2021, the FASB issued ASU No. 2021-05 ("ASU 2021-05") "*Lease (Topic 842): Lessors - Certain Leases with Variable Lease Payments*" which amends the lease classification requirements for lessors with certain leases containing variable payments. A lessor should classify and account for a lease with variable lease payments that do not depend on an index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease; and 2) the lessor would have otherwise recognized a day-one loss. The amendments in ASU 2021-05 are effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect the adoption to have a material impact on the Company's financial statements.

In May 2021, the FASB issued ASU No. 2021-04 ("ASU 2021-04") "*Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation— Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*" which provides guidance on modifications or exchanges of a freestanding equity-classified written call option that is not within the scope of another Topic. An entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument, and provides further guidance on measuring the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange. ASU 2021-04 also provides guidance on the recognition of the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange on the basis of the substance of the transaction, in the same manner as if cash had been paid as consideration. The amendments are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption to have a material impact on the Company's financial statements.

NOTE 2 - REVENUE

The following table presents the Company's revenue disaggregated by revenue source (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue from Contracts with Customers:				
Transaction-based revenue	$ 1,297,040	$ 925,294	$ 3,484,245	$ 2,365,967
Subscription and services-based revenue	636,841	430,010	1,793,308	1,032,168
Hardware revenue	37,255	27,294	109,769	67,291
Bitcoin revenue	1,815,662	1,633,764	8,051,026	2,815,318
Revenue from other sources:				
Subscription and services-based revenue	57,929	17,512	144,321	57,864
Total net revenue	$ 3,844,727	$ 3,033,874	$ 13,582,669	$ 6,338,608

The deferred revenue balances were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Deferred revenue, beginning of the period	$ 59,501	$ 51,549	$ 51,804	$ 44,331
Deferred revenue, end of the period	58,684	53,166	58,684	53,166
Deferred revenue arising from business combination	1,068	800	6,448	800
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period	$ 25,867	$ 17,560	$ 40,293	$ 33,885

NOTE 3 - INVESTMENTS IN DEBT SECURITIES

The Company's short-term and long-term investments as of September 30, 2021 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 93,867	$ 227	$ (6)	$ 94,088
Corporate bonds	290,231	369	(77)	290,523
Commercial paper	141,551	—	—	141,551
Municipal securities	15,738	12	—	15,750
Certificates of deposit	8,200	—	—	8,200
U.S. government securities	308,080	248	(5)	308,323
Foreign government securities	10,495	19	(140)	10,374
Total	$ 868,162	$ 875	$ (228)	$ 868,809
Long-term debt securities:				
U.S. agency securities	$ 152,820	$ 46	$ (175)	$ 152,691
Corporate bonds	704,676	337	(916)	704,097
Municipal securities	21,952	23	(10)	21,965
U.S. government securities	543,483	34	(337)	543,180
Foreign government securities	29,139	59	(24)	29,174
Total	$ 1,452,070	$ 499	$ (1,462)	$ 1,451,107

The Company's short-term and long-term investments as of December 31, 2020 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 153,386	$ 782	$ (164)	$ 154,004
Corporate bonds	76,957	256	(14)	77,199
Commercial paper	4,999	—	—	4,999
Municipal securities	10,377	57	(3)	10,431
U.S. government securities	404,194	1,244	(4)	405,434
Foreign government securities	42,988	139	(82)	43,045
Total	$ 692,901	$ 2,478	$ (267)	$ 695,112
Long-term debt securities:				
U.S. agency securities	$ 168,762	$ 519	$ (3)	$ 169,278
Corporate bonds	174,655	1,401	(42)	176,014
Municipal securities	1,045	15	—	1,060
U.S. government securities	91,642	433	(2)	92,073
Foreign government securities	25,351	184	(10)	25,525
Total	$ 461,455	$ 2,552	$ (57)	$ 463,950

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The Company's gross unrealized losses and fair values for those investments that were in an unrealized loss position as of September 30, 2021 and December 31, 2020, aggregated by investment category and the length of time that individual securities have been in a continuous loss position are as follows (in thousands):

	September 30, 2021					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 23,705	$ (6)	$ —	$ —	$ 23,705	$ (6)
Corporate bonds	166,579	(73)	925	(3)	167,504	(76)
Municipal securities	750	—	—	—	750	—
U.S. government securities	96,705	(5)	—	—	96,705	(5)
Foreign government securities	8,049	(140)	—	—	8,049	(140)
Total	$ 295,788	$ (224)	$ 925	$ (3)	$ 296,713	$ (227)
Long-term debt securities:						
U.S. agency securities	$ 124,811	$ (175)	$ —	$ —	$ 124,811	$ (175)
Corporate bonds	533,286	(916)	—	—	533,286	(916)
Municipal securities	4,054	(10)	—	—	4,054	(10)
U.S. government securities	470,202	(337)	—	—	470,202	(337)
Foreign government securities	14,087	(24)	—	—	14,087	(24)
Total	$ 1,146,440	$ (1,462)	$ —	$ —	$ 1,146,440	$ (1,462)

	December 31, 2020					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 41,711	$ (162)	$ 2,505	$ (2)	$ 44,216	$ (164)
Corporate bonds	15,255	(14)	—	—	15,255	(14)
Municipal securities	2,566	(3)	—	—	2,566	(3)
U.S. government securities	45,970	(4)	—	—	45,970	(4)
Foreign government securities	21,341	(82)	—	—	21,341	(82)
Total	$ 126,843	$ (265)	$ 2,505	$ (2)	$ 129,348	$ (267)
Long-term debt securities:						
U.S. agency securities	$ 1,406	$ (3)	$ —	$ —	$ 1,406	$ (3)
Corporate bonds	28,189	(42)	—	—	28,189	(42)
U.S. government securities	8,658	(2)	—	—	8,658	(2)
Foreign government securities	10,929	(10)	—	—	10,929	(10)
Total	$ 49,182	$ (57)	$ —	$ —	$ 49,182	$ (57)

The U.S. government and U.S. agency securities are either explicitly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies. The corporate bonds are issued by highly rated entities. The foreign government securities are issued by highly rated international entities. The Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of their amortized cost bases, which may be at maturity. The Company determines any realized gains or losses on the sale of marketable debt securities on a specific identification method, and records such gains and losses as a component of other expense, net.

The Company does not have any available for sale debt securities for which the Company has recorded credit related losses.

The contractual maturities of the Company's short-term and long-term investments as of September 30, 2021 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 868,162	$ 868,809
Due in one to five years	1,452,070	1,451,107
Total	$ 2,320,232	$ 2,319,916

NOTE 4 - CUSTOMER FUNDS

The following table presents the assets underlying customer funds (in thousands):

	September 30, 2021	December 31, 2020
Cash	$ 162,247	$ 145,577
Customer funds in transit	—	262,562
Cash Equivalents:		
Money market funds	1,485,002	777,193
Reverse repurchase agreement (i)	402,097	246,880
U.S. agency securities	—	47,300
U.S. government securities	133,944	111,796
Short-term debt securities:		
U.S. agency securities	53,563	113,178
U.S. government securities	412,261	333,346
Total	$ 2,649,114	$ 2,037,832

(i) The Company has accounted for the reverse repurchase agreement with a third party as an overnight lending arrangement, collateralized by the securities subject to the repurchase agreement. The Company classifies the amounts due from the counterparty as cash equivalents due to the short-term nature.

The Company's investments within customer funds as of September 30, 2021 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 53,568	$ —	$ (5)	$ 53,563
U.S. government securities	412,268	18	(25)	412,261
Total	$ 465,836	$ 18	$ (30)	$ 465,824

The Company's investments within customer funds as of December 31, 2020 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 113,156	$ 22	$ —	$ 113,178
U.S. government securities	333,323	28	(5)	333,346
Total	$ 446,479	$ 50	$ (5)	$ 446,524

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The gross unrealized losses and fair values for those investments that were in an unrealized loss position as of September 30, 2021 and December 31, 2020, aggregated by investment category and the length of time that individual securities have been in a continuous loss position are as follows (in thousands):

	September 30, 2021					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 30,045	$ (5)	$ —	$ —	$ 30,045	$ (5)
U.S. government securities	247,634	(25)	—	—	247,634	(25)
Total	$ 277,679	$ (30)	$ —	$ —	$ 277,679	$ (30)

	December 31, 2020					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. government securities	$ 73,609	$ (5)	$ —	$ —	$ 73,609	$ (5)
Total	$ 73,609	$ (5)	$ —	$ —	$ 73,609	$ (5)

The unrealized losses above were caused by interest rate changes. The U.S. government securities are either explicitly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies. The Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of their amortized cost bases, which may be at maturity. The Company determines any realized gains or losses on the sale of marketable debt securities on a specific identification method, and records such gains and losses as a component of other expense, net.

The Company does not have any available for sale debt securities for which the Company has recorded credit related losses.

The contractual maturities of the Company's investments within customer funds as of September 30, 2021 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 465,836	$ 465,824
Due in one to five years	—	—
Total	$ 465,836	$ 465,824

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures its cash equivalents, customer funds, short-term and long-term marketable debt securities, and marketable equity investment at fair value. The Company classifies these investments within Level 1 or Level 2 of the fair value hierarchy because the Company values these investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis are classified as follows (in thousands):

	September 30, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash Equivalents:						
Money market funds	$ 2,495,120	$ —	$ —	$ 1,694,736	$ —	$ —
U.S. agency securities	—	—	—	—	41,186	—
Certificates of deposit	—	1,500	—	—	—	—
Commercial paper	—	46,150	—	—	—	—
Corporate bonds	—	1,500	—	—	—	—
U.S. government securities	—	—	—	15,000	—	—
Customer funds:						
Money market funds	1,485,002	—	—	777,193	—	—
Reverse repurchase agreement	402,097	—	—	246,880	—	—
U.S. agency securities	—	53,564	—	—	160,478	—
U.S. government securities	546,205	—	—	445,142	—	—
Short-term debt securities:						
U.S. agency securities	—	94,088	—	—	154,004	—
Certificates of deposit	—	8,200	—	—	—	—
Corporate bonds	—	290,523	—	—	77,199	—
Commercial paper	—	141,551	—	—	4,999	—
Municipal securities	—	15,750	—	—	10,431	—
U.S. government securities	308,323	—	—	405,434	—	—
Foreign government securities	—	10,374	—	—	43,045	—
Long-term debt securities:						
U.S. agency securities	—	152,691	—	—	169,278	—
Corporate bonds	—	704,097	—	—	176,014	—
Municipal securities	—	21,965	—	—	1,060	—
U.S. government securities	543,180	—	—	92,073	—	—
Foreign government securities	—	29,174	—	—	25,525	—
Other:						
Investment in marketable equity security	—	—	—	376,258	—	—
Total	$ 5,779,927	$ 1,571,127	$ —	$ 4,052,716	$ 863,219	$ —

The carrying amounts of certain financial instruments, including settlements receivable, loans held for investment, accounts payable, customers payable, accrued expenses and settlements payable, approximate their fair values due to their short-term nature.

The Company estimates the fair value of its convertible and senior notes based on their last actively traded prices (Level 1) or market observable inputs (Level 2). The estimated fair value and carrying value of the convertible and senior notes were as follows (in thousands):

	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
2031 Senior Notes	$ 986,420	$ 1,032,250	$ —	$ —
2026 Senior Notes	986,924	1,017,070	—	—
2027 Convertible Notes	566,873	685,297	458,496	644,000
2026 Convertible Notes	567,195	659,404	482,204	638,250
2025 Convertible Notes	989,599	2,051,760	858,332	1,912,440
2023 Convertible Notes	640,818	1,982,159	780,046	2,417,820
2022 Convertible Notes	4,637	48,830	7,846	80,731
Total	$ 4,742,466	$ 7,476,770	$ 2,586,924	$ 5,693,241

The estimated fair value and carrying value of loans held for sale and loans held for investment is as follows (in thousands):

	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value (Level 3)	Carrying Value	Fair Value (Level 3)
Loans held for sale	$ 708,086	$ 824,640	$ 462,665	$ 467,805
Loans held for investment	79,482	83,760	—	—
Total	$ 787,568	$ 908,400	$ 462,665	$ 467,805

As of September 30, 2021, $605.4 million of the carrying value of loans held for sale was attributable to loans under the PPP. As the loans under the PPP qualify for forgiveness if certain criteria are met or are guaranteed by the U.S. government through the Small Business Administration ("SBA"), the related credit losses as of September 30, 2021 were immaterial. As of September 30, 2021, $434.2 million in PPP loans held for sale have been forgiven by the SBA, of which $97.6 million and $387.9 million have been forgiven in the three and nine months ended September 30, 2021, respectively. The loan forgiveness resulted in the recognition of $13.3 million and $37.6 million revenue associated with the forgiveness of the PPP loans for the three and nine months ended September 30, 2021, respectively. The Company approved and funded the last of its remaining PPP applications upon exhaustion of the funds in the program on May 21, 2021.

For the three and nine months ended September 30, 2021, the Company recorded a charge for the excess of amortized cost over fair value of the loans held for sale of $4.4 million and $6.0 million, respectively. For the three and nine months ended September 30, 2020, the Company recorded a charge for the excess of amortized cost over fair value of the loans of $3.2 million and $25.7 million, respectively. To determine the fair value of the loans held for sale, the Company utilizes industry-standard valuation modeling, such as discounted cash flow models, taking into account the estimated timing and amounts of periodic repayments. In estimating the expected timing and amounts of the future periodic repayments for the loans outstanding as of September 30, 2021, the Company considered other relevant market data in developing such estimates and assumptions, including the continuing impact of the COVID-19 pandemic. With respect to PPP loans, the Company also considers the impact of government guarantees and loan forgiveness on the timing and amounts of future cash flows. As of September 30, 2021, there were no material changes to our estimates, and the Company will continue to evaluate facts and circumstances that could impact our estimates and affect our results of operations in future periods.

If applicable, the Company will recognize transfers into and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three and nine months ended September 30, 2021 and 2020, the Company did not have any transfers in or out of Level 1, Level 2, or Level 3 assets or liabilities.

NOTE 6 - LOANS HELD FOR INVESTMENT

In April 2021, the Company began originating loans in the U.S. through its wholly-owned subsidiary bank, Square Financial Services. The Company sells the majority of the loans to institutional investors with a portion retained on its balance sheet. Loans retained by the Company are classified as held for investment as the Company has both the intent and ability to hold them for the foreseeable future, until maturity, or until payoff. The Company's intent and ability in the future may change based on changes in business strategies, the economic environment, and market conditions. As of September 30, 2021, the Company held $79.5 million as loans held for investment, net within other current assets on the condensed consolidated balance sheet, see Note 11, *Other Consolidated Balance Sheet Components*.

Loans held for investment are recorded at amortized cost, less an allowance for potential uncollectible amounts. Amortized cost basis represents principal amounts outstanding, net of unearned income, unamortized deferred fees and costs on originated loans, premiums or discounts on purchased loans and charge-offs.

The Company calculates an allowance for losses on the loans held for investment portfolio in accordance with ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The guidance requires an entity to assess impairment of its financial instruments based on the entity's current estimates of expected credit losses over the contractual term of its loans held for investment portfolio as of each balance sheet date. The Company determines the allowance for loan losses using both quantitative and qualitative methods and considers all available information relevant to assessing collectability. This includes but is not limited to: historical loss and recovery experience, recent and historical trends in delinquencies, past-due loans and charge-offs, borrower behavior and repayment speed, underwriting and collection management changes, changes in the legal and regulatory environment, changes in risk and underwriting standards, current and historical macroeconomic conditions such as changes in unemployment and GDP, and various other factors that may affect the sellers' ability to make future payments. There were no charge-offs or recoveries recorded as of September 30, 2021. The allowance for loan losses as of September 30, 2021 was immaterial.

The Company considers loans that are greater than 60 days past due to be delinquent, and loans 90 days or more past due to be nonperforming. When a loan is identified as nonperforming, recognition of income is discontinued. Loans are restored to performing status after total overdue unpaid amounts are repaid and the Company has reasonable assurance that performance under the terms of the loan will continue. As of September 30, 2021, the Company had no loans that were identified as nonperforming loans.

The Company closely monitors economic conditions and loan performance trends to assess and manage its exposure to credit risk. The criteria the Company monitors when assessing the credit quality and risk of its loan portfolio is primarily based on internal risk ratings, as they provide insight into borrower risk profiles and are useful as early indicators of potential future credit losses.

There were no loans outstanding classified as held for investment prior to June 8, 2021.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment, less accumulated depreciation and amortization (in thousands):

	September 30, 2021	December 31, 2020
Leasehold improvements	$ 202,430	$ 168,125
Computer equipment	161,880	139,174
Capitalized software	107,200	119,452
Office furniture and equipment	41,131	34,890
Total	512,641	461,641
Less: Accumulated depreciation and amortization	(237,355)	(228,121)
Property and equipment, net	$ 275,286	$ 233,520

Depreciation and amortization expense on property and equipment was $27.0 million and $15.4 million for the three months ended September 30, 2021 and 2020 respectively, and $68.4 million and $48.2 million for the nine months ended September 30, 2021 and 2020, respectively.

NOTE 8 - ACQUISITIONS

Afterpay

On August 1, 2021, the Company entered into a definitive agreement (the "Afterpay Agreement") with Afterpay Limited ("Afterpay") to acquire Afterpay by way of a court-approved Scheme of Arrangement (the "Scheme") for 0.375 share of the Company's Class A common stock or 0.375 CHESS Depositary Interests, traded on the Australian Stock Exchange, representing ownership interest in Square Class A common stock for each outstanding Afterpay ordinary share (the "Afterpay Transaction"). Based on the Company's closing Class A common stock price of $239.84 as of September 30, 2021 and the outstanding shares of Afterpay as of the same date, the aggregate consideration, excluding the value of replacement equity awards, is estimated at $26.6 billion, comprising approximately 111 million shares of Class A common stock of the Company. The determination of the final value of the purchase consideration will depend on the Company's stock price and the outstanding shares of Afterpay at the closing of the Afterpay Transaction.

The Afterpay Transaction is subject to customary closing conditions, including, among others: (i) approval by Afterpay shareholders of the Scheme by the requisite majorities under the Australian Corporations Act, (ii) approval by Company stockholders of the issuance of new shares of Class A common stock of the Company in connection with the Afterpay Transaction by the requisite majority (which approval was obtained at the special meeting of Company stockholders on November 3, 2021), (iii) expiration or earlier termination of any applicable waiting period and receipt of regulatory consents, approvals and clearances under relevant antitrust/competition and foreign investment legislation in the United States and other relevant jurisdictions, (iv) the absence of any final and non-appealable order, decree or law preventing, making illegal or prohibiting the completion of the Afterpay Transaction and (v) no events having occurred that would have a material adverse effect on Afterpay or the Company.

The Afterpay Agreement may be terminated by either the Company or Afterpay under certain circumstances including but not limited to: (i) an adverse change in recommendation for the Afterpay Transaction by the other party's board of directors, (ii) a material breach of a term of the Afterpay Agreement by the other party, or (iii) if the Scheme has not become effective on or before August 2, 2022, in each case in accordance with the Afterpay Agreement. Afterpay may also terminate the Afterpay Agreement if Afterpay's board of directors determines in accordance with the Afterpay Agreement that an Afterpay Competing Transaction is an Afterpay Superior Proposal (in each case as defined in the Afterpay Agreement). Either the Company or Afterpay may be required to pay a termination fee of A$385 million (approximately $283 million) to the other party in connection with the termination of the Afterpay Agreement under certain circumstances.

TIDAL

On April 30, 2021, the Company acquired an 86.23% ownership interest in TIDAL, a global music and entertainment platform that brings fans and artists together through unique music, content, and experiences. The acquisition extends Square's purpose of economic empowerment to musicians. The Company has the option, but not the obligation, to acquire any portion of the remaining noncontrolling interest any time after a three year period has elapsed from the execution of the merger agreement at a price based on the fair value of TIDAL shares.

The purchase consideration was comprised of $227.2 million in cash and 41,138 shares of the Company's Class A common stock with an aggregate fair value of $10.1 million based on the closing price of the Company's Class A common stock on the acquisition date. The purchase consideration is subject to adjustments for the final determination of the closing working capital. Third-party acquisition-related costs were immaterial. The results of TIDAL's operations have been included in the condensed consolidated financial statements since the closing date.

The acquisition was accounted for as a business combination. This method requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and that the difference between the fair value of the consideration paid for the acquired entity and the fair value of the net assets acquired be recorded as goodwill, which is not amortized but is tested at least annually for impairment.

The table below summarizes the consideration paid for TIDAL and the preliminary assessment of the fair value of the assets acquired and liabilities assumed at the closing date (in thousands, except share data).The Company is in the process of completing the determination of the fair values of certain intangible assets acquired, liabilities assumed and noncontrolling interests, including reviewing third party valuations, and accordingly, the preliminary values reflected in the table are subject to change. These changes will primarily relate to the fair value assigned to intangible assets acquired, royalty liabilities assumed, and evaluation of contingencies and tax effects related to the acquisition.

Consideration:		
Cash	$	176,663
Deferred consideration		50,528
Stock (41,138 shares of Class A common stock)		10,071
	$	237,262
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets (inclusive of cash acquired of $12,358)	$	33,294
Intangible customer assets		69,000
Intangible technology assets		29,000
Intangible trade name		35,000
Intangible other assets		8,000
Other non-current assets		33,443
Accrued expenses and other current liabilities		(67,789)
Other non-current liabilities		(52,547)
Total identifiable net assets acquired		87,401
Noncontrolling interests		(48,192)
Goodwill		198,053
Total	$	237,262

Goodwill from the acquisition was primarily attributable to the value of expected synergies created by incorporating TIDAL product and operations into the Company's technology platform and the value of the assembled workforce. An estimated amount of approximately $90.3 million of the goodwill generated from the TIDAL acquisition and approximately $112.3 million of the acquired intangible assets are expected to be deductible for US tax purposes based on the preliminary values. Additionally, the acquisition would have resulted in the recognition of US deferred tax assets; however, the realization of such deferred tax assets depends primarily on the Company's ability, post-acquisition, to generate taxable income in future periods of which there is not sufficient evidence of such income as of September 30, 2021. Accordingly, a valuation allowance was recorded against the net acquired deferred tax asset in accounting for the acquisition.

Deferred consideration in the aggregate amount of $50.5 million relates to pre-acquisition contingencies, and includes a portion of purchase consideration withheld, for a period of up to 4 years, as security for TIDAL's indemnification obligations related to general representations and warranties, in addition to certain potential exposures. The Company recognized certain liabilities for acquired pre-existing potential exposures, and an indemnification receivable in the amount of $24.5 million has been recorded related to such exposures in accordance with the terms of the indemnification agreement. Such amounts may change depending on the outcomes associated with the exposures, including the determination of claims that would be attributed to pre-acquisition matters. The amounts have been determined in accordance with ASC 740, *Income Taxes*, and ASC 450, *Contingencies*.

The Company prepared an initial determination of the fair value of the assets acquired and liabilities assumed as of the acquisition date using preliminary information. Subsequently, the Company has recognized measurement period adjustments to the purchase consideration and the jurisdictional allocation of the fair value of certain assets and liabilities assumed as a result of further refinements in the Company’s estimates. The net effect of these adjustments on the preliminary purchase price allocation was an increase of $13.2 million in both goodwill and deferred tax liabilities assumed, respectively. There was no impact to the consolidated statements of operations as result of these adjustments. The Company continues the process of completing the evaluation of contingencies and tax effects related to the acquisition. Accordingly, the preliminary values reflected in the table above are subject to change.

In addition to the deferred consideration, an additional amount of $30.5 million in purchase consideration has been withheld related to defined post-acquisition activities. Because these amounts relate to post-acquisition activities, in accordance with ASC 805, *Business Combinations*, such amounts will be recognized as expenses in future periods, as incurred.

The noncontrolling interest was recorded based on the fair value on the date of acquisition.

The acquisition of TIDAL did not have a material impact on the Company's condensed consolidated financial statements. Accordingly, pro forma financial information has not been presented.

Other Acquisitions

On July 13, 2021 the Company completed an acquisition for total consideration of $20.5 million which resulted in the recognition of additional intangible assets and goodwill. None of the goodwill generated from the acquisition or acquired intangible assets are expected to be deductible for tax purposes.

NOTE 9 - GOODWILL

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets acquired.

The change in carrying value of goodwill in the period was as follows (in thousands):

Balance at December 31, 2020	$ 316,701
Acquisitions	203,247
Other	(400)
Balance at September 30, 2021	$ 519,548

The Company performs an annual goodwill impairment test on December 31 and more frequently if events and circumstances indicate that the asset might be impaired.

The Company has two operating and reportable segments, which are Seller and Cash App (defined further in Note 19, *Segment and Geographical Information*). The change in carrying value of goodwill allocated to the reportable segments in the period was as follows (in thousands):

	Cash App	Seller	Corporate and Other	Total
Balance at December 31, 2020	$ 128,838	$ 187,863	$ —	$ 316,701
Acquisitions	—	5,194	198,053	203,247
Other	(400)	—	—	(400)
Balance at September 30, 2021	$ 128,438	$ 193,057	$ 198,053	$ 519,548

NOTE 10 - ACQUIRED INTANGIBLE ASSETS

The following table presents the detail of acquired intangible assets as of the periods presented (in thousands):

	Balance at September 30, 2021			
	Weighted Average Estimated Useful Life	Cost	Accumulated Amortization	Net
Technology assets	5 years	$ 165,255	$ (59,085)	$ 106,170
Customer assets	15 years	128,418	(16,805)	111,613
Trade name	9 years	53,194	(12,355)	40,839
Other	9 years	13,710	(3,640)	10,070
Total		$ 360,577	$ (91,885)	$ 268,692

	Balance at December 31, 2020			
	Weighted Average Estimated Useful Life	Cost	Accumulated Amortization	Net
Technology assets	5 years	$ 119,508	$ (43,084)	$ 76,424
Customer assets	11 years	58,556	(10,796)	47,760
Trade name	6 years	18,529	(8,031)	10,498
Other	8 years	5,733	(2,803)	2,930
Total		$ 202,326	$ (64,714)	$ 137,612

All intangible assets are amortized over their estimated useful lives.

The changes to the carrying value of intangible assets were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Acquired intangible assets, net, beginning of the period	$ 262,196	$ 99,802	$ 137,612	$ 69,079
Acquisitions	18,100	12,100	159,100	51,109
Amortization expense	(11,140)	(5,236)	(27,258)	(13,522)
Other	(464)	896	(762)	896
Acquired intangible assets, net, end of the period	$ 268,692	$ 107,562	$ 268,692	$ 107,562

The estimated future amortization expense of intangible assets in future periods as of September 30, 2021 is as follows (in thousands):

Remainder of 2021	$ 11,250
2022	42,971
2023	41,720
2024	38,742
2025	31,915
Thereafter	102,094
Total	$ 268,692

NOTE 11 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (CURRENT)

Other Current Assets

The following table presents the detail of other current assets (in thousands):

	September 30, 2021	December 31, 2020
Loans held for investment, net of allowance for loan losses (i)	$ 79,482	$ —
Inventory, net	73,413	61,129
Restricted cash	14,420	30,279
Processing costs receivable	215,886	148,606
Prepaid expenses	70,591	34,279
Accounts receivable, net	78,401	41,960
Other	77,340	66,814
Total	$ 609,533	$ 383,067

(i) In April 2021, the Company began originating loans in the U.S. through its wholly-owned subsidiary bank, Square Financial Services, Inc., and discontinued a prior arrangement with an industrial bank partner. Refer to Note 6, *Loans Held for Investment* for further details.

Accrued Expenses and Other Current Liabilities

The following table presents the detail of accrued expenses and other current liabilities (in thousands):

	September 30, 2021	December 31, 2020
Accrued expenses	$ 231,853	$ 126,710
Square Payroll payable (i)	68,959	16,990
Accrued royalties	51,747	—
Accrued transaction losses (ii)	47,737	70,557
Accounts payable	94,215	47,089
Customer deposits	40,092	—
Deferred revenue, current	51,655	44,908
Current portion of long-term debt	4,637	—
Other	63,600	54,596
Total	$ 654,495	$ 360,850

(i) Square Payroll payable represents amounts received from Square Payroll product customers that will be utilized to settle the customers' employee payroll and related obligations.

(ii) The Company is exposed to potential credit losses related to transactions processed by sellers that are subsequently subject to chargebacks when the Company is unable to collect from the sellers primarily due to insolvency. Generally, the Company estimates the potential loss rates based on historical experience that is continuously adjusted for new information and incorporates, where applicable, reasonable and supportable forecasts about future expectations.

The following table summarizes the activities of the Company's reserve for transaction losses (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Accrued transaction losses, beginning of the period	$ 48,480	$ 109,061	$ 70,557	$ 34,771
Provision for transaction losses	17,364	(4,549)	38,406	107,524
Charge-offs to accrued transaction losses	(18,107)	(17,577)	(61,226)	(55,360)
Accrued transaction losses, end of the period	$ 47,737	$ 86,935	$ 47,737	$ 86,935

In addition to amounts reflected in the table above, the Company recognized additional provision for transaction losses that were realized and written-off within the same period. The Company recorded $89.8 million and $252.2 million for the three and nine months ended September 30, 2021, respectively, compared to $103.9 million and $200.9 million for the three and nine months ended September 30, 2020, respectively, for such losses.

NOTE 12 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (NON-CURRENT)

Other Non-Current Assets

The following table presents the detail of other non-current assets (in thousands):

	September 30, 2021	December 31, 2020
Investment in non-marketable equity securities (i)	$ 82,181	$ 32,510
Investment in marketable equity security (ii)	—	376,258
Investment in bitcoin, net (iii)	148,910	50,000
Restricted cash	73,420	13,526
Other	79,997	26,956
Total	$ 384,508	$ 499,250

(i) Investment in non-marketable equity securities includes the Company's investments in equity instruments of non-public entities. These investments are measured using the measurement alternative and are therefore carried at cost, less impairment, adjusted for observable price changes. Additionally, the Company holds a non-marketable common stock warrant in a public entity. The warrant is carried at fair value, with changes in fair value being recorded within other expense (income), net on the condensed consolidated statement of operations. During the three and nine months ended September 30, 2021, the Company recorded a net loss of $6.8 million, arising from the revaluation of the non-marketable investments.

(ii) In December 2020, upon completion of the initial public offering of DoorDash Inc. ("DoorDash"), the shares of preferred stock held by the Company converted into Class A common stock of DoorDash. The investment was carried at fair value, with changes in fair value being recorded within other income or expense on the condensed consolidated statement of operations. During the nine months ended September 30, 2021, the Company recorded a net gain of $44.4 million, arising from the revaluation of the investment. In June 2021, the Company completed the sale of its remaining investment in DoorDash, which will have no further impact on the Company's results in future periods.

(iii) The Company invested $50.0 million and $170.0 million in bitcoin in the fourth quarter of 2020 and the first quarter of 2021, respectively. Bitcoin is accounted for as an indefinite lived intangible asset, and thus, is subject to impairment losses if the fair value of bitcoin decreases below the carrying value during the assessed period. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale of the asset.

The Company recorded impairment charges of $6.0 million and $71.1 million in the three and nine months ended September 30, 2021 due to the observed market price of bitcoin decreasing below the carrying value during the period. As of September 30, 2021, the fair value of the investment in bitcoin was $351.7 million based on observable market prices which is $202.8 million in excess of the Company's carrying value of $148.9 million.

In the second quarter of 2021, the Company began lending a portion of its bitcoin investments to third parties. As of September 30, 2021, $6.0 million of the Company's investments in bitcoin had been loaned to third party borrowers. Bitcoin is an indefinite-lived intangible asset and under the terms of the lending arrangement it must be returned to the Company. As such, the bitcoin lent will not be derecognized and will continue to be carried at cost less impairment losses.

Other Non-Current Liabilities

The following table presents the detail of other non-current liabilities (in thousands):

	September 30, 2021	December 31, 2020
Statutory liabilities (i)	$ 135,568	$ 75,370
Other (ii)	91,480	9,921
Total	$ 227,048	$ 85,291

(i) Statutory liabilities represent loss contingencies that may arise from the Company's interpretation and application of certain guidelines and rules issued by various federal, state, local, and foreign regulatory authorities.

(ii) Other non-current liabilities includes deferred purchase consideration associated with the acquisition of TIDAL.

NOTE 13 - INDEBTEDNESS

Revolving Credit Facility

In May 2020, the Company entered into a revolving credit agreement with certain lenders, which provided a $500.0 million senior unsecured revolving credit facility (the "2020 Credit Facility") maturing in May 2023. On May 28, 2020, the Company amended the credit agreement for the 2020 Credit Facility (the "Credit Agreement") to permit the Company’s wholly owned subsidiary, Square Capital, LLC (“Square Capital”), to incur indebtedness in an aggregate principal amount of up to $500.0 million pursuant to the Paycheck Protection Program Liquidity Facility (“PPPLF”) authorized under the Federal Reserve Act of 1913. In connection with its convertible debt offerings in November 2020, the Company entered into a second amendment to the Credit Agreement on November 9, 2020 to permit convertible debt in an aggregate principal amount not to exceed $3.6 billion. On January, 28, 2021, the Company entered into a third amendment to the Credit Agreement to increase the amount of indebtedness that Square Capital is permitted to incur pursuant to the PPPLF from an aggregate principal amount of up to $500 million to an aggregate principal amount of up to $1.0 billion. On May 25, 2021, the Company entered into a fourth amendment to the Credit Agreement to, among other things, extend the maturity date of the loans advanced to May 1, 2024. The Credit Agreement also contains a financial covenant that requires the Company to maintain a quarterly minimum liquidity amount (consisting of the sum of Unrestricted cash and Cash Equivalents plus Marketable Securities, each as defined in the Credit Agreement) of at least $250.0 million, tested on a quarterly basis. The Company is obligated to pay customary fees for a credit facility of this size and type including an unused commitment fee of 0.15%. To date no funds have been drawn and no letters of credit have been issued under the 2020 Credit Facility. As of September 30, 2021, $500.0 million remained available for draw. The Company incurred $0.2 million and $0.6 million in unused commitment fees during the three and nine months ended September 30, 2021, respectively, compared to $0.2 million for the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, the Company was in compliance with all financial covenants associated with the 2020 Credit Facility.

Loans under the 2020 Credit Facility bear interest at the Company's option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and the adjusted LIBOR rate plus 1.00%, in each case, plus a margin ranging from 0.25% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.75%. The Credit Agreement includes provisions allowing the Company to replace or update LIBOR with a replacement rate. The margin is determined based on the Company’s total leverage ratio, as defined in the Credit Agreement. The Credit Agreement also contains customary affirmative and negative covenants typical for a financing of this type that, among other things, restricts the Company and certain of its subsidiaries’ ability to incur additional indebtedness, create liens, merge or consolidate or make certain dispositions, pay dividends and make distributions, enter into restrictive agreements, enter into agreements with affiliates, and make certain investments and acquisitions.

Paycheck Protection Program Liquidity Facility

On June 2, 2020, Square Capital was approved to borrow under the PPPLF with the Federal Reserve Bank of San Francisco ("First PPPLF Agreement") at an annual interest rate of 0.35%. The PPPLF extends credit to eligible financial institutions that have originated or purchased PPP loans. Advances under the PPPLF are non-recourse and are secured by a pledge of PPP loans held by Square Capital. The maturity date of any PPPLF loan will be the maturity date of the PPP loans pledged to secure such PPPLF loan. The maturity date of any PPPLF loan will be accelerated on and to the extent of (i) the date of any loan forgiveness reimbursement by the SBA for any PPP loan securing such PPPLF loan; or (ii) the date of purchase by the SBA from Square Capital of any PPP loan securing such PPPLF loan to realize on the SBA's guarantee of such PPP loan. The maturity date of all PPPLF loans shall be accelerated upon the occurrence of certain events of default by Square Capital, including but not limited to the failure to comply with a requirement of the PPPLF agreement or any representation, warranty, or covenant of Square Capital under the PPPLF agreement being inaccurate on or as of the date it is deemed to be made or on any date on which an PPPLF loan remains outstanding. The Company can also at its option prepay the advances in full or in part without penalty. Square Capital also shall prepay PPPLF loans so that the amount of any PPPLF loans outstanding does not exceed the outstanding amount of PPP loans pledged to secure such PPPLF loans.

On January 29, 2021, Square Capital entered into a second PPPLF agreement with the Federal Reserve Bank of San Francisco ("Second PPPLF Agreement") to secure additional credit collateralized by loans from the subsequent rounds of the PPP program in an aggregate principal amount of up to $1.0 billion under both PPPLF agreements. As of September 30, 2021, $725.7 million of PPPLF advances were outstanding and are, generally, collateralized by the same value of PPP loans. Any differences between the amounts are generally due to the timing of PPP loan repayment or forgiveness, and repayment of PPPLF advances.

Senior Unsecured Notes due in 2026 and 2031

On May 20, 2021, the Company issued an aggregate principal amount of $2.0 billion senior unsecured notes comprised of $1.0 billion of senior unsecured notes due 2026 ("2026 Senior Notes") and $1.0 billion senior unsecured notes due 2031 ("2031 Senior Notes" and, together with the 2026 Senior Notes, the "Senior Notes"). The 2026 Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased, and bear interest a rate of 2.75% payable semi-annually on June 1 and December 1 of each year. The 2031 Senior Notes mature on June 1, 2031, unless earlier redeemed or repurchased, and bear interest at a rate of 3.50% payable semi-annually on June 1 and December 1 of each year. The Senior Notes are subject to optional redemption provisions. At any time prior to May 1, 2026, in the case of the 2026 Senior Notes, and March 1, 2031, in the case of the 2031 Senior Notes, the Company may redeem the applicable series in whole or part at a price equal to 100% of the principal amount of the notes to be redeemed plus an applicable premium and accrued and unpaid interest, if any, to but excluding the redemption date. The applicable premium for any note is the greater of: (1) 1.0% of the principal amount of such note, and (2) the excess, if any, of (a) the present value at the redemption date of all scheduled payments of interest plus principal on such note (excluding accrued but unpaid interest, if any, to, but excluding, the redemption date) computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points, over (b) the principal amount of such note. At any time on or after May 1, 2026, in the case of the 2026 Senior Notes, and March 1, 2031, in the case of the 2031 Senior Notes, the Company may redeem the notes of the applicable series in whole or part at a price of 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to but excluding the redemption date. If the Company experiences a change of control triggering event (as defined in the applicable indenture governing the applicable Senior Notes), the Company must offer to repurchase each series of Senior Notes at a repurchase price equal to 101% of the principal amount of the applicable notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable repurchase date. In the event of default, the trustee or holders of at least 25% in aggregate principal amount of the applicable series of outstanding Senior Notes under the applicable indenture may declare all of the notes of the applicable series to be due and immediately payable. If the event of default is the result of specified events of bankruptcy, insolvency or reorganization, all of the notes of the applicable series will become due without any declaration or action by the trustee or holders. If there is a default in the payment of interest, the Company shall pay the defaulted interest plus, to the extent lawful, interest payable on the defaulted interest at the rate provided in the Senior Notes.

Debt issuance costs related to the 2026 Senior Notes and 2031 Senior Notes were comprised of discounts and commissions payable to the initial purchasers of $22.5 million and third party offering costs of $5.7 million. Issuance costs are amortized to interest expense using the effective interest method at an effective interest rate of 3.06% and 3.69% for each of the respective terms of the 2026 Senior Notes and 2031 Senior Notes, respectively.

Convertible Notes due in 2026 and 2027

On November 13, 2020, the Company issued an aggregate principal amount of $1.15 billion of convertible senior notes comprised of $575.0 million of convertible senior notes due 2026 ("2026 Convertible Notes") and $575.0 million of convertible senior notes due 2027 ("2027 Convertible Notes"). The 2026 Convertible Notes mature on May 1, 2026, unless earlier converted or repurchased, and bears a zero rate of interest. The 2027 Convertible Notes mature on November 1, 2027, unless earlier converted or repurchased, and bear interest at a rate of 0.25% payable semi-annually on May 1 and November 1 of each year. Both the 2026 Convertible Notes and 2027 Convertible Notes are convertible at an initial conversion rate of 3.3430 shares of the Company's Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $299.13 per share of Class A common stock. Holders may convert their relevant series of notes at any time prior to the close of business on the business day immediately preceding February 1, 2026 and August 1, 2027 for the 2026 Convertible Notes and 2027 Convertible Notes, respectively, only under the following circumstances: (1) during any calendar quarter, commencing after the calendar quarter ending on March 31, 2021 (and only during such calendar quarter), if the last reported sale price of the Company’s Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2026 Convertible Notes and 2027 Convertible Notes) per $1,000 principal amount of 2026 Convertible Notes and 2027 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s Class A common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the 2026 Convertible Notes and 2027 Convertible Notes for redemption, such relevant series of notes called for redemption may be converted at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2026 Convertible Notes and 2027 Convertible Notes) or a transaction resulting in the Company’s Class A common stock converting into other securities or property or assets. In addition, upon occurrence of the specified corporate events prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert their relevant series of notes in connection with such an event in certain circumstances. On or after February 1, 2026 in the case of the 2026 Convertible Notes, and on or after August 1, 2027 in the case of the 2027 Convertible Notes, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder of the relevant series of notes may convert all or any portion of its 2026 Convertible Notes or 2027 Convertible Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company’s election. The circumstances required to allow the holders to convert their 2026 Convertible Notes and 2027 Convertible Notes were not met during the nine months ended September 30, 2021. On or after November 5, 2023 for the 2026 Convertible Notes, and on or after November 5, 2024 for the 2027 Convertible Notes, the Company may redeem all or a portion of each series of convertible notes for cash at its option, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price for the relevant series of notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2026 Convertible Notes and 2027 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

In accounting for the issuance of the 2026 Convertible Notes and 2027 Convertible Notes, prior to the adoption of ASU No. 2020-06, the Company separated the relevant series of convertible notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $198.0 million and was determined by deducting the fair value of the liability component from the par value of the 2026 Convertible Notes and the 2027 Convertible Notes. The equity component was not re-measured as long as it continued to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") was amortized to interest expense at an effective interest rate of 3.35% and 3.66% for the 2026

Convertible Notes and 2027 Convertible Notes, respectively. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the separation of the debt and equity components and accounted for the Notes wholly as debt. The Company also reversed the amortization of the debt discount, with a cumulative adjustment to retained earnings on the adoption date.

Debt issuance costs related to the 2026 Convertible Notes and 2027 Convertible Notes were comprised of discounts and commissions payable to the initial purchasers of $17.5 million and third party offering costs of $1.0 million. Prior to the adoption of ASU No. 2020-06, the Company allocated the total amount incurred to the liability and equity components of the 2026 Convertible Notes and 2027 Convertible Notes based on their relative values. Issuance costs attributable to the liability component were $15.4 million and were amortized to interest expense using the effective interest method. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the allocation of the issuance costs to the equity component and accounted for the entire amount as debt issuance cost that will be amortized as interest expense at an effective interest rate of 0.49% and 0.30% for each of the respective terms of the 2026 Convertible Notes and 2027 Convertible Notes, respectively, with a cumulative adjustment to retained earnings on the adoption date.

Upon adoption of ASU No. 2020-06, the difference between the estimated fair value and the carrying value upon conversion is accounted for as a reduction to the related debt issuance costs, with the remainder recognized as additional paid in capital to reflect the par value of the shares issued. As of September 30, 2021, there has been no principal converted on either the 2026 Convertible Notes or 2027 Convertible Notes.

As of September 30, 2021, the if-converted value of the 2026 Convertible Notes and 2027 Convertible Notes did not exceed the outstanding principal amount.

Convertible Senior Notes due in 2025

On March 5, 2020, the Company issued an aggregate principal amount of $1.0 billion of convertible senior notes ("2025 Convertible Notes"). The 2025 Convertible Notes mature on March 1, 2025, unless earlier converted or repurchased, and bear interest at a rate of 0.1250% payable semi-annually on March 1 and September 1 of each year. The 2025 Convertible Notes are convertible at an initial conversion rate of 8.2641 shares of the Company's Class A common stock per $1,000 principal amount of 2025 Convertible Notes, which is equivalent to an initial conversion price of approximately $121.01 per share of Class A common stock. Holders may convert their 2025 Convertible Notes at any time prior to the close of business on the business day immediately preceding December 1, 2024 only under the following circumstances: (1) during any calendar quarter, commencing after the calendar quarter ending on June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the Company’s Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2025 Convertible Notes) per $1,000 principal amount of 2025 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s Class A common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the 2025 Convertible Notes for redemption, such 2025 Convertible Notes called for redemption may be converted at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2025 Convertible Notes) or a transaction resulting in the Company’s Class A common stock converting into other securities or property or assets. In addition, upon occurrence of the specified corporate events prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert their 2025 Convertible Notes in connection with such an event in certain circumstances. On or after December 1, 2024, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2025 Convertible Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company’s election. The Company may redeem for cash all or any part of the 2025 Convertible Notes, at its option, on or after March 5, 2023, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price for the 2025 Convertible Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The circumstances to allow the holders to convert their 2025 Convertible Notes were met in the first quarter of 2021.

In accounting for the issuance of the 2025 Convertible Notes, prior to the adoption of ASU No. 2020-06, the Company separated the 2025 Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $154.6 million and was determined by deducting the fair value of the liability component from the par value of the 2025 Convertible Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2025 Convertible Notes at an effective interest rate of 3.81% over the contractual terms of the 2025 Convertible Notes. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the separation of the debt and equity components and accounted for the 2025 Convertible Notes wholly as debt. The Company also reversed the amortization of the debt discount, with a cumulative adjustment to retained earnings on the adoption date.

Debt issuance costs related to the 2025 Convertible Notes were comprised of discounts and commissions payable to the initial purchasers of $14.3 million and third party offering costs of $0.9 million. Prior to the adoption of ASU No. 2020-06, the Company allocated the total amount incurred to the liability and equity components of the 2025 Convertible Notes based on their relative values. Issuance costs attributable to the liability component were $12.8 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders’ equity. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the allocation of the issuance costs to the equity component and accounted for the entire amount as debt issuance cost that will be amortized as interest expense over the remaining term at an effective interest rate of 0.43% for the 2025 Convertible Notes with a cumulative adjustment to retained earnings on the adoption date.

Upon adoption of ASU No. 2020-06, the difference between the estimated fair value and the carrying value upon conversion is accounted for as a reduction to the related debt issuance costs, with the remainder recognized as additional paid in capital to reflect the par value of the shares issued. As of September 30, 2021, there has been no principal converted on the 2025 Convertible Notes.

As of September 30, 2021, the if-converted value of the 2025 Convertible Notes exceeded the outstanding principal amount by $1.0 billion.

Convertible Senior Notes due in 2023

On May 25, 2018, the Company issued an aggregate principal amount of $862.5 million of convertible senior notes ("2023 Convertible Notes"). The 2023 Convertible Notes mature on May 15, 2023, unless earlier converted or repurchased, and bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year. The 2023 Convertible Notes are convertible at an initial conversion rate of 12.8456 shares of the Company's Class A common stock per $1,000 principal amount of 2023 Convertible Notes, which is equivalent to an initial conversion price of approximately $77.85 per share of Class A common stock. Holders may convert their 2023 Convertible Notes at any time prior to the close of business on the business day immediately preceding February 15, 2023 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company’s Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2023 Convertible Notes) per $1,000 principal amount of 2023 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2023 Convertible Notes) or a transaction resulting in the Company’s Class A common stock converting into other securities or property or assets. On or after February 15, 2023, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2023 Convertible Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company’s election. The circumstances to allow the holders to convert their 2023 Convertible Notes were met in the fourth quarter of 2020 and continued to be met through September 30, 2021. As of September 30, 2021, certain holders of the 2023 Convertible Notes have converted an aggregate principal amount of $220.0 million of their 2023 Convertible Notes. The Company has settled the conversions through the issuance of 2.8 million shares of the Company's Class A common stock.

In accounting for the issuance of the 2023 Convertible Notes, prior to the adoption of ASU No. 2020-06, the Company separated the 2023 Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $155.3 million and was determined by deducting the fair value of the liability component from the par value of the 2023 Convertible Notes. The equity component is not re-measured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2023 Convertible Notes at an effective interest rate of 4.69% over the contractual terms of the 2023 Convertible Notes. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the separation of the debt and equity components and accounted for the 2023 Convertible Notes wholly as debt. The Company also reversed the amortization of the debt discount, with a cumulative adjustment to retained earnings on the adoption date.

Debt issuance costs related to the 2023 Convertible Notes comprised of discounts and commissions payable to the initial purchasers of $6.0 million and third party offering costs of $0.8 million. Prior to the adoption of ASU No. 2020-06, the Company allocated the total amount incurred to the liability and equity components of the 2023 Convertible Notes based on their relative values. Issuance costs attributable to the liability component were $5.6 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the allocation of the issuance costs to the equity component and accounted for the entire amount as debt issuance cost that will be amortized as interest expense over the remaining term at an effective interest rate of 0.66% for the 2023 Convertible Notes with a cumulative adjustment to retained earnings on the adoption date.

Upon adoption of ASU No. 2020-06, the difference between the estimated fair value and the carrying value upon conversion is accounted for as a reduction to the related debt issuance costs, with the remainder recognized as additional paid in capital to reflect the par value of the shares issued.

As of September 30, 2021, the if-converted value of the 2023 Convertible Notes exceeded the outstanding principal amount by $1.3 billion.

Convertible Senior Notes due in 2022

On March 6, 2017, the Company issued an aggregate principal amount of $440.0 million of convertible senior notes ("2022 Convertible Notes"). The 2022 Convertible Notes mature on March 1, 2022, unless earlier converted or repurchased, and bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year. The 2022 Convertible Notes are convertible at an initial conversion rate of 43.5749 shares of the Company's Class A common stock per $1,000 principal amount of 2022 Convertible Notes, which is equivalent to an initial conversion price of approximately $22.95 per share of Class A common stock. Holders may convert their 2022 Convertible Notes at any time prior to the close of business on the business day immediately preceding December 1, 2021 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2022 Convertible Notes) per $1,000 principal amount of 2022 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2022 Convertible Notes) or a transaction resulting in the Company's Class A common stock converting into other securities or property or assets. On or after December 1, 2021, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2022 Convertible Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company's election. The circumstances required to allow the holders to convert their 2022 Convertible Notes were met in the fourth quarter of 2017 and continued to be met through September 30, 2021. As of September 30, 2021, certain holders of the 2022 Convertible Notes have converted an aggregate principal amount of $435.3 million of their 2022 Convertible Notes, of which $3.9 million was converted during the nine months ended September 30, 2021. The Company has settled the conversions through a combination of $219.4 million in cash and issuance of 16.3 million shares of the Company's Class A common stock. The conversions during the nine months ended September 30, 2021 were settled entirely in shares of the Company's Class A common stock.

In accounting for the issuance of the 2022 Convertible Notes, prior to the adoption of ASU No. 2020-06, the Company separated the 2022 Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $86.2 million and was determined by deducting the fair value of the liability component from the par value of the 2022 Convertible Notes. The equity component is not re-measured as long as it continues to meet the conditions for equity classification. The debt discount is amortized to interest expense over the term of the 2022 Convertible Notes at an effective interest rate of 5.34% over the contractual terms of the 2022 Convertible Notes. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the separation of the debt and equity components and accounted for the 2022 Convertible Notes wholly as debt. The Company also reversed the amortization of the debt discount, with a cumulative adjustment to retained earnings on the adoption date.

Debt issuance costs related to the 2022 Convertible Notes comprised of discounts and commissions payable to the initial purchasers of $11.0 million and third party offering costs of $0.8 million. Prior to the adoption of ASU No. 2020-06, the Company allocated the total amount incurred to the liability and equity components of the 2022 Convertible Notes based on their relative values. Issuance costs attributable to the liability component were $9.4 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Upon adoption of ASU No. 2020-06 on January 1, 2021, the Company reversed the allocation of the issuance costs to the equity component and accounted for the entire amount as debt issuance cost that will be amortized as interest expense over the remaining term at an effective interest rate of 0.93% for the 2022 Convertible Notes with a cumulative adjustment to retained earnings on the adoption date.

Prior to the adoption of ASU No. 2020-06, the debt component associated with the 2022 Convertible Notes that were converted was accounted for as an extinguishment of debt, with the Company recording loss on extinguishment as the difference between the estimated fair value and the carrying value of such 2022 Convertible Notes. The equity component associated with the 2022 Convertible Notes that were converted was accounted for as a reacquisition of equity upon the conversion of such 2022 Convertible Notes. Upon adoption of ASU No. 2020-06, the difference between the estimated fair value and the carrying value upon conversion is accounted for as a reduction to the related debt issuance costs, with the remainder recognized as additional paid in capital to reflect the par value of the shares issued. There no longer is a gain or loss on extinguishment of debt recognized upon conversion, as the debt is settled in equity.

As of September 30, 2021, the if-converted value of the 2022 Convertible Notes exceeded the outstanding principal amount by $44.1 million.

The net carrying amount of the Notes were as follows (in thousands):

	Principal outstanding	Unamortized debt issuance costs	Net carrying value
September 30, 2021			
2031 Senior Notes	$ 1,000,000	$ (13,580)	$ 986,420
2026 Senior Notes	1,000,000	(13,076)	986,924
2027 Convertible Notes	575,000	(8,127)	566,873
2026 Convertible Notes	575,000	(7,805)	567,195
2025 Convertible Notes	1,000,000	(10,401)	989,599
2023 Convertible Notes	642,488	(1,670)	640,818
2022 Convertible Notes	4,665	(28)	4,637
Total	$ 4,797,153	$ (54,687)	$ 4,742,466

As discussed above, upon the adoption of ASU No. 2020-06, the Company reversed the separation of the debt and equity components of the Convertible Notes, and accounted for the Convertible Notes wholly as debt. Additionally, the issuance costs of the Notes were accounted for as debt issuance costs in its entirety. Refer to Note 1, *Description of Business and Summary of Significant Accounting Policies* for further details on the impact of adoption.

	Principal outstanding	Unamortized debt discount	Unamortized debt issuance costs	Net carrying value
December 31, 2020				
2027 Convertible Notes	$ 575,000	$ (109,134)	$ (7,370)	$ 458,496
2026 Convertible Notes	575,000	(85,085)	(7,711)	482,204
2025 Convertible Notes	1,000,000	(130,335)	(11,333)	858,332
2023 Convertible Notes	862,500	(79,980)	(2,474)	780,046
2022 Convertible Notes	8,545	(629)	(70)	7,846
Total	$ 3,021,045	$ (405,163)	$ (28,958)	$ 2,586,924

The net carrying amount of the equity component of the Convertible Notes as of December 31, 2020 were as follows (in thousands):

	Amount allocated to conversion option	Less: allocated issuance costs	Equity component, net
December 31, 2020			
2027 Convertible Notes	$ 111,000	$ (1,793)	$ 109,207
2026 Convertible Notes	87,000	(1,405)	85,595
2025 Convertible Notes	154,600	(2,342)	152,258
2023 Convertible Notes	155,250	(1,231)	154,019
2022 Convertible Notes	1,674	(45)	1,629
Total	$ 509,524	$ (6,816)	$ 502,708

The Company recognized interest expense on the Notes as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Contractual interest expense	$ 17,047	$ 1,544	$ 27,272	$ 4,482
Amortization of debt issuance costs (i)	2,868	17,516	7,005	47,624
Total	$ 19,915	$ 19,060	$ 34,277	$ 52,106

(i) Upon adoption of ASU No. 2020-06, the debt discount associated with the equity component on convertible debt outstanding was reversed which resulted in a decrease in the amount of non-cash interest expense to be recognized going forward.

Prior to the adoption of ASU No. 2020-06, the effective interest rate for the 2027 Convertible Notes, 2026 Convertible Notes, 2025 Convertible Notes, 2023 Convertible Notes, and 2022 Convertible Notes was 3.66%, 3.35%, 3.81%, 4.69%, and 5.34%, respectively. After the adoption of ASU No. 2020-06, the effective interest rates for the 2027 Convertible Notes, 2026 Convertible Notes, 2025 Convertible Notes, 2023 Convertible Notes, and 2022 Convertible Notes are 0.30%, 0.49%, 0.43%, 0.66%, and 0.93%, respectively.

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the 2027 Convertible Notes, the Company entered into convertible note hedge transactions ("2027 convertible note hedges") with certain financial institution counterparties ("2027 Convertible Notes Counterparties") whereby the Company has the option to purchase a total of approximately 1.92 million shares of its Class A common stock at a price of approximately $299.13 per share. The total cost of the 2027 convertible note hedge transactions was $104.3 million. In addition, the Company sold warrants ("2027 warrants") to the 2027 Convertible Notes Counterparties whereby the 2027 Convertible Notes Counterparties have the option to purchase a total of 1.92 million shares of the Company’s Class A common stock at a price of approximately $414.18 per share for the 2027 warrants. The Company received $68.0 million in cash proceeds from the sale of the 2027 warrants. Taken together, the purchase of the 2027 convertible note hedges and sale of the 2027 warrants are intended to reduce dilution from the conversion of the 2027 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2027 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately $299.13 per share to approximately $414.18 per share for the 2027 warrants. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2027 convertible note hedges and 2027 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not re-measured each reporting period. The net costs incurred in connection with the 2027 convertible note hedges and 2027 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2026 Convertible Notes, the Company entered into convertible note hedge transactions ("2026 convertible note hedges") with certain financial institution counterparties ("2026 Convertible Notes Counterparties") whereby the Company has the option to purchase a total of approximately 1.92 million shares of its Class A common stock at a price of approximately $299.13 per share. The total cost of the 2026 convertible note hedges was $84.6 million. In addition, the Company sold warrants ("2026 warrants") to the 2026 Convertible Notes Counterparties whereby the 2026 Convertible Notes Counterparties have the option to purchase a total of 1.92 million shares of the Company’s Class A common stock at a price of approximately $368.16 per share for the 2026 warrants. The Company received $64.6 million in cash proceeds from the sale of the 2026 warrants. Taken together, the purchase of the 2026 convertible note hedges and sale of the 2026 warrants are intended to reduce dilution from the conversion of the 2026 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2026 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately $299.13 per share to approximately $368.16 per share for the 2026 warrants. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2026 convertible note hedges and 2026 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2026 convertible note hedges and 2026 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2025 Convertible Notes, the Company entered into convertible note hedge transactions ("2025 convertible note hedges") with certain financial institution counterparties ("2025 Convertible Notes Counterparties") whereby the Company has the option to purchase a total of approximately 8.26 million shares of its Class A common stock at a price of approximately $121.01 per share. The total cost of the 2025 convertible note hedges was $149.2 million. In addition, the Company sold warrants ("2025 warrants") to the 2025 Convertible Notes Counterparties whereby the 2025 Convertible Notes Counterparties have the option to purchase a total of 8.26 million shares of the Company’s Class A common stock at a price of approximately $161.34 per share. The Company received $99.5 million in cash proceeds from the sale of the 2025 warrants. Taken together, the purchase of the 2025 convertible note hedges and sale of the 2025 warrants are intended to reduce dilution from the conversion of the 2025 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2025 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately $121.01 per share to approximately $161.34 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2025 convertible note hedges and 2025 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2025 convertible note hedges and 2025 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2023 Convertible Notes, the Company entered into convertible note hedge transactions ("2023 convertible note hedges") with certain financial institution counterparties ("2018 Counterparties") whereby the Company has the option to purchase a total of approximately 11.1 million shares of its Class A common stock at a price of approximately $77.85 per share. The total cost of the 2023 convertible note hedges was $172.6 million. In addition, the Company sold warrants ("2023 warrants") to the 2018 Counterparties whereby the 2018 Counterparties have the option to purchase a total of 11.1 million shares of the Company’s Class A common stock at a price of approximately $109.26 per share. The Company received $112.1 million in cash proceeds from the sale of the 2023 warrants. Taken together, the purchase of the 2023 convertible note hedges and sale of the 2023 warrants are intended to reduce dilution from the conversion of the 2023 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2023 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately $77.85 per share to approximately $109.26 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2023 convertible note hedges and 2023 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2023 convertible note hedges and 2023 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. The Company also exercised a pro-rata portion of the 2023 convertible note hedges to offset the shares of the Company's Class A common stock issued to settle the conversion of the 2023 Convertible Notes. The Company has received 1.3 million shares of the Company's Class A common stock from the 2018 Counterparties as of September 30, 2021

In connection with the offering of the 2022 Convertible Notes, the Company entered into convertible note hedge transactions ("2022 convertible note hedges") with certain financial institution counterparties ("2017 Counterparties") whereby the Company has the option to purchase a total of approximately 19.2 million shares of its Class A common stock at a price of approximately $22.95 per share. The total cost of the 2022 convertible note hedge transactions was $92.1 million.

In addition, the Company sold warrants ("2022 warrants") to the 2017 Counterparties whereby the 2017 Counterparties have the option to purchase a total of 19.2 million shares of the Company's Class A common stock at a price of approximately $31.18 per share. The Company received $57.2 million in cash proceeds from the sale of the 2022 warrants. Taken together, the purchase of the 2022 convertible note hedges and sale of the 2022 warrants are intended to reduce dilution from the conversion of the 2022 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2022 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately $22.95 per share to approximately $31.18 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2022 convertible note hedges and 2022 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2022 convertible note hedges and 2022 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. The Company has exercised a pro-rata portion of the 2022 convertible note hedges to offset the shares of the Company's Class A common stock issued to settle the conversion of the 2022 Convertible Notes discussed above. The 2022 convertible note hedges were net share settled, and as of September 30, 2021, the Company has received 14.9 million shares of the Company's Class A common stock from the 2017 Counterparties, of which 5.5 million was received in the nine months ended September 30, 2021.

NOTE 14 - INCOME TAXES

The Company recorded an income tax expense of $0.5 million and an income tax benefit of $8.0 million for the three and nine months ended September 30, 2021, respectively, compared to an income tax benefit of $1.4 million and $1.6 million for the three and nine months ended September 30, 2020, respectively. The difference between income before income tax and the income tax benefit recorded for the three and nine months ended September 30, 2021 is primarily due to a change in the valuation allowance in the U.S. and excess share-based compensation tax deductions. The difference between the income tax benefit for the three and nine months ended September 30, 2021 and the income tax benefit for the three and nine months ended September 30, 2020 primarily relates to an increase in excess share-based compensation deductions.

The tax provision for the three and nine months ended September 30, 2021 and September 30, 2020, is calculated on a jurisdictional basis. The Company estimated the worldwide income tax provision using the estimated annual effective income tax rate expected to be applicable for the full year. The Company's effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of forecasted pre-tax earnings in the various jurisdictions in which the Company operates, changes in valuation allowances against deferred tax assets, the recognition and de-recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business.

As of September 30, 2021, the Company retains a full valuation allowance on its net deferred tax assets in the U.S. and certain foreign jurisdictions. The realization of the Company's deferred tax assets depends primarily on its ability to generate taxable income in future periods. The amount of deferred tax assets considered realizable in future periods may change as management continues to reassess the underlying factors it uses in estimating future taxable income.

NOTE 15 - STOCKHOLDERS' EQUITY

Common Stock

The Company has two classes of authorized common stock outstanding; Class A common stock and Class B common stock. Class A common stock and Class B common stock are referred to as "common stock" throughout these Notes to the Condensed Consolidated Financial Statements, unless otherwise noted. Holders of shares of Class A common stock are entitled to one vote per share, while holders of shares of Class B common stock are entitled to ten votes per share. Shares of the Company's Class B common stock are convertible into an equivalent number of shares of its Class A common stock and generally convert into shares of its Class A common stock upon transfer. The holders of Class A common stock and Class B common stock have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. As of September 30, 2021, the Company was authorized to issue 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock, each with a par value of $0.0000001 per share. As of September 30, 2021, there were 398,878,883 shares of Class A common stock and 62,100,770 shares of Class B common stock outstanding. Options and awards granted following the Company's initial public offering are related to underlying Class A common stock.

Warrants

In conjunction with the 2022 Convertible Notes offering, the Company sold the 2022 warrants whereby the counterparties have the option to purchase a total of approximately 19.2 million shares of the Company's Class A common stock at a price of $31.18 per share, and expire on June 1, 2022. None of the warrants were exercised as of September 30, 2021.

In conjunction with the 2023 Convertible Notes offering, the Company sold the 2023 warrants whereby the counterparties have the option to purchase a total of approximately 11.1 million shares of the Company's Class A common stock at a price of $109.26 per share, and expire on August 15, 2023. None of the warrants were exercised as of September 30, 2021.

In conjunction with the 2025 Convertible Notes offering, the Company sold the 2025 warrants whereby the counterparties have the option to purchase a total of approximately 8.3 million shares of the Company's Class A common stock at a price of $161.34 per share, and expire on June 1, 2025. None of the warrants were exercised as of September 30, 2021.

In conjunction with the 2026 Convertible Notes offering, the Company sold the 2026 warrants whereby the counterparties have the option to purchase a total of approximately 1.9 million shares of the Company's Class A common stock at a price of $368.16 per share, and expire on August 1, 2026. None of the warrants were exercised as of September 30, 2021.

In conjunction with the 2027 Convertible Notes offering, the Company sold the 2027 warrants whereby the counterparties have the option to purchase a total of approximately 1.9 million shares of the Company's Class A common stock at a price of $414.18 per share, and expire on February 1, 2028. None of the warrants were exercised as of September 30, 2021.

Conversion of Convertible Notes and Exercise of Convertible Note Hedges

In connection with the conversion of the 2022 Convertible Notes, the Company issued 16.3 million shares of Class A common stock, of which 0.2 million shares were issued in the nine months ended September 30, 2021. The Company also exercised a pro-rata portion of the 2022 convertible note hedges and received 14.9 million shares of Class A common stock from the 2017 Counterparties to offset the shares issued, of which 5.5 million shares were received in the nine months ended September 30, 2021.

In connection with the conversion of the 2023 Convertible Notes, the Company issued 2.8 million shares of Class A common stock in the nine months ended September 30, 2021. The Company also exercised a pro-rata portion of the 2023 convertible note hedges and received 1.3 million shares of Class A common stock from the 2018 Counterparties to offset the shares issued as of September 30, 2021.

Stock Plans

The Company maintains two share-based employee compensation plans: the 2009 Stock Plan (2009 Plan) and the 2015 Equity Incentive Plan (2015 Plan). The 2015 Plan serves as the successor to the 2009 Plan. The 2015 Plan became effective as of November 17, 2015. Outstanding awards under the 2009 Plan continue to be subject to the terms and conditions of the 2009 Plan. Since November 17, 2015, no additional awards have been nor will be granted in the future under the 2009 Plan.

Under the 2015 Plan, shares of the Company's Class A common stock are reserved for the issuance of incentive and nonstatutory stock options (ISOs and NSOs, respectively), restricted stock awards (RSAs), restricted stock units (RSUs), performance shares, and stock bonuses to qualified employees, directors, and consultants. The awards must be granted at a price per share not less than the fair market value at the date of grant. Initially, 30,000,000 shares were reserved under the 2015 Plan and any shares subject to options or other similar awards granted under the 2009 Plan that expire, are forfeited, are repurchased by the Company or otherwise terminate unexercised, will become available under the 2015 Plan. The number of shares available for issuance under the 2015 Plan has been and will be increased on the first day of each fiscal year, in an amount equal to the least of (i) 40,000,000 shares, (ii) 5% of the outstanding shares on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the administrator of the Plan. The administrator consists of the Board of Directors who then delegates the responsibilities to the Compensation Committee. As of September 30, 2021, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2015 Plan was 16,570,814, and 118,883,836 shares were available for future issuance. As of September 30, 2021, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2009 Plan was 6,797,068.

A summary of stock option activity for the nine months ended September 30, 2021 is as follows (in thousands, except share and per share data):

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2020	13,630,882	$ 17.84	3.84	$ 2,723,394
Granted	198,771	255.22		
Exercised	(4,417,087)	11.64		
Forfeited	(2,895)	71.99		
Balance at September 30, 2021	9,409,671	$ 25.75	4.19	$ 2,017,556
Options exercisable as of September 30, 2021	8,099,979	$ 15.57	3.52	$ 1,816,899

Restricted Stock Activity

Activity related to RSAs and RSUs during the nine months ended September 30, 2021 is set forth below:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2020	15,622,645	$ 71.71
Granted	4,256,680	246.06
Vested	(5,179,004)	68.22
Forfeited	(742,110)	101.77
Unvested as of September 30, 2021	13,958,211	$ 124.57

Share-Based Compensation

The fair value of stock options and employee stock purchase plan rights are estimated on the date of grant using the Black-Scholes-Merton option valuation model. The fair value of RSAs and RSUs is determined by the closing price of the Company’s common stock on each grant date.

The following table summarizes the effects of share-based compensation on the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	$ 99	$ 100	$ 310	$ 271
Product development	121,209	78,682	314,265	205,647
Sales and marketing	16,023	12,063	40,680	27,354
General and administrative	27,680	19,544	74,744	50,600
Total	$ 165,011	$ 110,389	$ 429,999	$ 283,872

The Company recorded $7.6 million and $24.4 million of share-based compensation expense related to the Company's 2015 Employee Stock Purchase Plan during the three and nine months ended September 30, 2021, respectively, compared to $3.3 million and $12.1 million during the three and nine months ended September 30, 2020, respectively, which are included in the table above.

The Company capitalized $3.6 million and $11.0 million of share-based compensation expense related to capitalized software costs during the three and nine months ended September 30, 2021 and 2020, respectively, compared to $3.8 million and $9.5 million during the three and nine months ended September 30, 2020, respectively.

As of September 30, 2021, there was $1.7 billion of total unrecognized compensation cost related to outstanding stock options and restricted stock awards that are expected to be recognized over a weighted-average period of 2.94 years.

NOTE 16 - NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding adjusted for the dilutive effect of all potential shares of common stock. In periods when the Company reported a net loss, diluted net loss per share is the same as basic net loss per share because the effects of potentially dilutive items were anti-dilutive.

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income (loss)	$ (2,876)	$ 36,515	$ 239,810	$ (80,854)
Net income (loss) attributable to noncontrolling interests	(2,960)	—	(3,303)	—
Net income (loss) attributable to common stockholders	$ 84	$ 36,515	$ 243,113	$ (80,854)
Denominator:				
Basic shares:				
Weighted-average common shares outstanding	460,948	445,074	457,414	440,540
Weighted-average unvested shares	(294)	(616)	(375)	(685)
Weighted-average shares used to compute basic net income per share:	460,654	444,458	457,039	439,855
Diluted shares:				
Stock options, restricted stock, and employee stock purchase plan	17,180	26,166	18,991	—
Convertible senior notes	—	—	18,727	—
Common stock warrants	26,286	17,445	25,447	—
Weighted-average shares used to compute diluted net income per share:	504,120	488,069	520,204	439,855
Net income (loss) per share attributable to common stockholders:				
Basic	$ 0.00	$ 0.08	$ 0.53	$ (0.18)
Diluted	$ 0.00	$ 0.07	$ 0.48	$ (0.18)

The following potential common shares were excluded from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Stock options, restricted stock, and employee stock purchase plan	7,652	10,309	7,161	37,445
Common stock warrants	16,075	21,071	16,914	36,556
Convertible senior notes	20,884	26,738	3,845	25,532
Total anti-dilutive securities	44,611	58,118	27,920	99,533

NOTE 17 - RELATED PARTY TRANSACTIONS

In July 2019, the Company entered into a lease agreement to lease certain office space located in St. Louis, Missouri, from an affiliate of one of the Company's co-founders and current member of its board and directors, Mr. Jim McKelvey, under an operating lease agreement as discussed in Note 18, *Commitments and Contingencies*. The lease commencement date varies by floor beginning in May 2020. The term of the agreement is 15.5 years with total minimum lease payments over the term of approximately $42.7 million. As of September 30, 2021, the Company had recorded right-of-use assets of $21.0 million and associated lease liabilities of $33.7 million related to this lease arrangement.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Litigation

The Company is currently subject to, and may in the future be involved in, various litigation matters, legal claims, and investigations. The Company is subject to various legal matters and disputes arising in the ordinary course of business. The Company cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these matters. Although occasional adverse decisions or settlements may occur, the Company does not believe that the final disposition of any of these matters will have a material adverse effect on its results of operations, financial position, or liquidity. The Company cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to the Company's operating results for any particular period.

Other contingencies

We are under examination, or may be subject to examination, by several tax authorities. These examinations may lead to proposed adjustments to our taxes or net operating losses with respect to years under examination, as well as subsequent periods. We regularly assess the likelihood of adverse outcomes resulting from tax examinations to determine the adequacy of our provision for direct and indirect taxes. We continue to monitor the progress of ongoing discussions with tax authorities and the effect, if any, on our provision for direct and indirect taxes.

We believe that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with the Company's expectations, we could be required to adjust our provision for direct and indirect taxes in the period such resolution occurs.

NOTE 19 - SEGMENT AND GEOGRAPHICAL INFORMATION

The Company reports its operating segments to reflect the manner in which the Company's CODM reviews and assesses performance. Accordingly, the Company has two reportable segments, which are Seller and Cash App. Seller and Cash App are defined as follows:

- Seller includes managed payment services, software solutions, hardware, and financial services offered to sellers, excluding those that involve Cash App.
- Cash App includes the financial tools available to individuals within the mobile Cash App, including peer-to-peer payments, bitcoin and stock investments. Cash App also includes Cash Card which is linked to customer stored balances that customers can use to pay for purchases or withdraw funds from an ATM.

The primary financial measures used by the CODM to evaluate performance and allocate resources are revenue and gross profit. The CODM does not evaluate performance or allocate resources based on segment asset data, and therefore such information is not included.

Information on the reportable segments revenue and segment gross profit are as follows (in thousands):

	Three Months Ended September 30, 2021				Nine Months Ended September 30, 2021			
	Cash App	Seller	Corporate and Other (i)	Total	Cash App	Seller	Corporate and Other (i)	Total
Revenue								
Transaction-based revenue	$ 103,192	$ 1,193,848	$ —	$ 1,297,040	$ 306,101	$ 3,178,144	$ —	$ 3,484,245
Subscription and services-based revenue	474,779	162,341	57,650	694,770	1,406,313	434,673	96,643	1,937,629
Hardware revenue	—	37,255	—	37,255	—	109,769	—	109,769
Bitcoin revenue	1,815,662	—	—	1,815,662	8,051,026	—	—	8,051,026
Segment revenue	$ 2,393,633	$ 1,393,444	$ 57,650	$ 3,844,727	$ 9,763,440	$ 3,722,586	$ 96,643	$ 13,582,669
Segment gross profit	$ 511,717	$ 606,225	$ 15,273	$ 1,133,215	$ 1,553,255	$ 1,659,378	$ 25,147	$ 3,237,780

	Three Months Ended September 30, 2020				Nine Months Ended September 30, 2020			
	Cash App	Seller	Corporate and Other (i)	Total	Cash App	Seller	Corporate and Other (i)	Total
Revenue								
Transaction-based revenue	$ 80,721	$ 844,573	$ —	$ 925,294	$ 162,197	$ 2,203,770	$ —	$ 2,365,967
Subscription and services-based revenue	354,110	93,412	—	447,522	818,991	271,041	—	1,090,032
Hardware revenue	—	27,294	—	27,294	—	67,291	—	67,291
Bitcoin revenue	1,633,764	—	—	1,633,764	2,815,318	—	—	2,815,318
Segment revenue	$ 2,068,595	$ 965,279	$ —	$ 3,033,874	$ 3,796,506	$ 2,542,102	$ —	$ 6,338,608
Segment gross profit	$ 385,124	$ 409,331	$ —	$ 794,455	$ 848,919	$ 1,080,800	$ —	$ 1,929,719

(i) Corporate and other represents results related to products and services that are not assigned to a specific reportable segment. Comparable prior period amounts have not been disclosed as they were not material.

A reconciliation of total segment gross profit to the Company's income (loss) before applicable income taxes is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total segment gross profit	$ 1,133,215	$ 794,455	$ 3,237,780	$ 1,929,719
Less: Product development	366,587	227,550	1,003,238	631,156
Less: Sales and marketing	407,850	348,463	1,132,411	781,094
Less: General and administrative	267,476	153,902	684,405	419,783
Less: Transaction and loan losses	62,306	15,198	130,874	161,684
Less: Bitcoin impairment losses	6,000	—	71,126	—
Less: Interest expense, net	13,409	14,980	20,126	38,955
Less: Other expense (income), net	12,011	(784)	(36,249)	(20,513)
Income (loss) before applicable income taxes	$ (2,424)	$ 35,146	$ 231,849	$ (82,440)

Revenue

Revenue by geography is based on the addresses of the sellers or customers. The following table sets forth revenue by geographic area (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue				
United States	$ 3,679,609	$ 2,947,400	$ 13,179,547	$ 6,126,971
International	165,118	86,474	403,122	211,637
Total net revenue	$ 3,844,727	$ 3,033,874	$ 13,582,669	$ 6,338,608

No individual country from the international markets contributed in excess of 10% of total revenue for the three and nine months ended September 30, 2021 and 2020.

Long-Lived Assets

The following table sets forth long-lived assets by geographic area (in thousands):

	September 30, 2021	December 31, 2020
Long-lived assets		
United States	$ 1,420,358	$ 1,086,379
International	91,416	58,342
Total long-lived assets	$ 1,511,774	$ 1,144,721

Assets by reportable segment were not included, as this information is not reviewed by the CODM to make operating decisions or allocate resources and is reviewed on a consolidated basis.

NOTE 20 - SUPPLEMENTAL CASH FLOW INFORMATION

The supplemental disclosures of cash flow information consist of the following (in thousands):

	Nine Months Ended September 30,	
	2021	2020
Analysis of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	$ 4,514,609	$ 2,118,808
Short-term restricted cash	14,420	27,556
Long-term restricted cash	73,420	13,702
Cash, cash equivalents, and restricted cash	$ 4,602,449	$ 2,160,066

	Nine Months Ended September 30,	
	2021	2020
Supplemental Cash Flow Data:		
Cash paid for interest	$ 4,770	$ 3,665
Cash paid for income taxes	9,071	4,452
Supplemental disclosures of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease obligations	40,712	321,245
Purchases of property and equipment in accounts payable and accrued expenses	21,746	(4,207)
Unpaid business combination purchase price	54,132	8,974
Fair value of common stock issued and issuable in future related to business combination	(28,735)	(35,318)
Fair value of common stock issued to settle the conversion of senior notes	(742,174)	(323,891)
Fair value of shares received to settle senior note hedges	1,623,095	—
Bitcoin lent to third party borrowers	$ (5,994)	$ —

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the information set forth within the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q, as well as our Annual report on Form 10-K. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, our plans, estimates, beliefs and expectations that involve risks and uncertainties, and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Overview

We started Square in February 2009 to enable businesses (sellers) to accept card payments, an important capability that was previously inaccessible to many businesses. However, sellers need many innovative solutions to thrive, and we have expanded to provide them additional products and services and to give them access to a cohesive ecosystem of tools to help them manage and grow their businesses. Similarly, with Cash App, we have built a parallel ecosystem of financial services to help individuals manage their money.

Our Seller ecosystem is a cohesive commerce ecosystem that helps sellers start, run and grow their businesses, and consists of over 30 distinct software, hardware, and financial services products. We monetize the majority of these products through a combination of transaction, subscription, and service fees. Our suite of cloud-based software solutions are integrated to create a seamless experience and enable a holistic view of sales, customers, employees, and locations. With our offering, a seller can accept payments in person via swipe, dip, or tap of a card, or online via Square Invoices, Square Virtual Terminal, or the seller's website. We also provide hardware to facilitate commerce for sellers, which includes magstripe readers, contactless and chip readers, Square Stand, Square Register, Square Terminal, and third-party peripherals. Our Seller ecosystem includes Square Banking for our U.S. sellers, offering a suite of products including Square Savings, Square Checking, and Square Loans (formerly known as Square Capital). In the second quarter of 2021, we began offering Square Loans in Australia. Square Savings allows sellers to automatically set aside funds from daily sales into savings accounts that earn interest. Square Checking provides sellers with an FDIC insured account allowing them access to funds for business expenses using their Square Debit Card or for paying employees via Square Payroll. Square Loans offers sellers access to business loans based on the seller's payment processing history. We recognize revenue upon the sale of the loans to third-party investors or over time as the sellers pay down the outstanding amounts for the loans that we hold as available for sale or for investment. We have grown rapidly to serve millions of sellers that represent a diverse set of industries (including services, food-related business, and retail businesses) and sizes, ranging from a single vendor at a farmers' market to multi-location businesses. Square sellers also span geographies, including the United States, Canada, Japan, Australia, the United Kingdom, Ireland, and France.

Our Cash App ecosystem provides financial tools for individuals to store, send, receive, spend and invest money. With Cash App, customers can fund their account with a bank account or debit card, send and receive peer-to-peer payments, and receive direct deposit payments. Customers can make purchases with their Cash Card, a Visa prepaid card that is linked to the balance stored in Cash App. Additionally, customers can use Cash App Pay, a checkout option which allows customers to pay using their Cash App account. With Cash Boost, customers receive instant discounts when they make Cash Card purchases at designated merchants. Customers can also use their stored funds to buy and sell bitcoin and equity investments within Cash App. The Cash App ecosystem also includes a tax filing product for individuals, providing a seamless, mobile-first solution for individuals to file their taxes for free.

We also recently launched TBD, a bitcoin-focused business established to build an open developer platform with the goal of making it easy to create non-custodial, permissionless, and decentralized financial services.

On August 1, 2021, we entered into a definitive agreement to acquire Afterpay by way of a court-approved Scheme of Arrangement for 0.375 share of our Class A common stock for each outstanding Afterpay ordinary share. The estimated aggregate purchase consideration based on our closing stock price of $239.84 as of September 30, 2021 and the outstanding shares of Afterpay as of the same date, excluding the value of replacement equity awards, is $26.6 billion, comprising approximately 111 million shares of our Class A common stock. The final determination of the purchase consideration will depend on our stock price and the outstanding shares of Afterpay at the closing date of the transaction. The transaction is expected to close in the first quarter of 2022. Afterpay, a pioneering global 'buy now, pay later' (BNPL) platform, is expected to accelerate our strategic priorities for our Seller and Cash App ecosystems. Refer to Note 8, *Acquisitions,* of Notes to the Condensed Consolidated Financial Statements for further details.

On July 20, 2021, we launched Square Banking to our U.S. sellers, expanding access to financial services, which includes Square Savings, Square Checking, and Square Loans (formerly known as Square Capital). Square Loans and Square Savings are offered through our wholly-owned subsidiary, Square Financial Services, Inc. ("Square Financial Services"), and Square Checking through a partner bank.

On April 30, 2021, we completed the acquisition of a majority ownership interest in TIDAL as detailed in Note 8, *Acquisitions,* of Notes to the Condensed Consolidated Financial Statements. TIDAL is a global music and entertainment platform that brings fans and artists together through unique music, content, and experiences. The acquisition extends our purpose of economic empowerment to musicians.

On May 20, 2021, we issued an aggregate principal amount of $2.0 billion of senior unsecured notes comprised of $1.0 billion of senior unsecured notes that mature on June 1, 2026 ("2026 Senior Notes") with a 2.75% interest rate, and $1.0 billion of senior unsecured notes that mature on June 1, 2031 ("2031 Senior Notes") with a 3.50% interest rate. The 2026 Senior Notes and 2031 Senior Notes will mature on each of its respective dates, unless earlier redeemed or repurchased. Interest on the 2026 Senior Notes and 2031 Senior Notes will be payable semi-annually on June 1 and December 1 of each year beginning on December 1, 2021. We intend to use the net proceeds from our 2026 Senior Notes and 2031 Senior Notes offerings for general corporate purposes, which may include potential acquisitions and strategic transactions, capital expenditures, investments and working capital.

On March 1, 2021, the industrial loan company charter for Square Financial Services was approved by the Federal Deposit Insurance Corporation ("FDIC"). Square Financial Services offers banking services including certain loan and deposit products.

We participated in two rounds of the Paycheck Protection Program ("PPP") under the provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). These PPP loans are guaranteed by the U.S. government and are eligible for forgiveness if the borrowers meet certain criteria. As of September 30, 2021, we had facilitated the issuance of $1.4 billion of loans in the aggregate under the program, of which we had sold $399.0 million to an investor. As of September 30, 2021, approximately $434.2 million in the aggregate of PPP loans had been forgiven by the SBA, of which, $387.9 million was forgiven in the third quarter of 2021. We approved and funded the last remaining PPP applications on May 21, 2021 upon exhaustion of the funds in the program.

To fund some of our PPP loans, we entered into Paycheck Protection Program Liquidity Facility agreements with the Federal Reserve Bank of San Francisco for an aggregate principal amount of up to $1.0 billion. Borrowings under the facility accrue interest at a rate of 0.35% and advances are collateralized by the same value of the loans originated under the PPP. The maturity date of any PPPLF advance is the maturity date of the PPP loan pledged to secure the advance, and will be accelerated upon the occurrence of certain events of default. The advances under the facility are repayable if the associated PPP loans are forgiven, repaid by the customer, or settled by the government guarantee. As of September 30, 2021, $725.7 million of PPPLF advances were outstanding.

Update on the Impact of COVID-19 on Current Trends and Outlook

Continuing into the third quarter of 2021, we experienced improvements in our business, despite the rise of COVID-19 delta variant infection rates across the country. These improvements were mainly as a result of varying states of continued economic recovery and re-openings in the majority of U.S. markets that our customers operate in. We experienced growth in our Seller GPV performance, as in-person activity at sellers continued to increase on a year-over-year basis. Overall, we continued to experience improvements in our business in our international markets, although regional lockdowns in select markets periodically affected in-person activity. Our Cash App business performed well due to increased consumer spending, as we continued to benefit from the strength of a broader macroeconomic recovery, regional re-openings, and government stimulus and relief programs enacted in response to COVID-19.

Although our business results and outlook remain positive, the emergence of new and more transmissible variants of COVID-19 could lead to a possible resurgence of the virus, particularly in populations with low vaccination rates, requiring the reimplementation of restrictions. The extent to which the pandemic will further impact our financial results in the future is unknown.

Results of Operations

Revenue (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**	**2021**	**2020**	**$ Change**	**% Change**
Transaction-based revenue	$ 1,297,040	$ 925,294	$ 371,746	40 %	$ 3,484,245	$ 2,365,967	$ 1,118,278	47 %
Subscription and services-based revenue	694,770	447,522	247,248	55 %	$ 1,937,629	$ 1,090,032	$ 847,597	78 %
Hardware revenue	37,255	27,294	9,961	36 %	109,769	67,291	$ 42,478	63 %
Bitcoin revenue	1,815,662	1,633,764	181,898	11 %	$ 8,051,026	$ 2,815,318	$ 5,235,708	186 %
Total net revenue	$ 3,844,727	$ 3,033,874	$ 810,853	27 %	$ 13,582,669	$ 6,338,608	$ 7,244,061	114 %

Total net revenue for the three and nine months ended September 30, 2021 increased by $810.9 million, or 27%, and $7.2 billion, or 114%, compared to the three and nine months ended September 30, 2020, respectively. Bitcoin revenue increased by $181.9 million and $5.2 billion for the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020, respectively, and represented 22% and 72% of the increase in total net revenue for the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, respectively. Excluding bitcoin revenue, total net revenue increased by $629.0 million, or 45%, and $2.0 billion, or 57%, in the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020, respectively.

Transaction-based revenue for the three and nine months ended September 30, 2021 increased by $371.7 million or 40%, and $1.1 billion or 47%, compared to the three and nine months ended September 30, 2020, respectively. These increases in revenue were in-line with the increase in GPV of 43% and 51% for the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020, respectively. The increase in transaction-based revenue was driven by the:

- continued improvements in both card-present volumes as a result of regional re-openings and resumed in-person activity at sellers, as well as growth in higher-priced card-not-present transactions;
- increase in consumer spending driven in part by a broader macro economic recovery, regional re-openings and growth in our Seller GPV in international markets despite periodic lockdowns in certain markets, as well as U.S. government disbursements related to stimulus programs enacted through the third quarter of 2021; and
- growth in Cash App Business GPV which includes Cash for Business and peer-to-peer payments sent from a credit card. Cash for Business includes peer-to-peer transactions received by business accounts using Cash App.

These factors had varying impacts on GPV growth and may continue to impact our revenues in the future.

Subscription and services-based revenue for the three and nine months ended September 30, 2021 increased by $247.2 million, or 55%, and $847.6 million, or 78%, compared to the three and nine months ended September 30, 2020, respectively. These increases were primarily driven by Cash App and Seller. The increase in Cash App subscription and services-based revenue is primarily due to increased Cash Card usage and Cash App Instant Deposit volumes. Seller subscription and services-based revenue increased primarily due to the increased origination volumes of Square Loans, other software subscriptions, and Instant Transfer for sellers. Subscription and services-based revenue also includes revenue generated from music streaming services following the acquisition of TIDAL in the second quarter of 2021.

Hardware revenue for the three and nine months ended September 30, 2021 increased by $10.0 million, or 36%, and $42.5 million, or 63%, compared to the three and nine months ended September 30, 2020, respectively. These increases were primarily a result of an overall increase in sales of hardware across many of our product offerings primarily due to Square Register, Square Terminal, and third party peripherals.

Bitcoin revenue for the three and nine months ended September 30, 2021 increased by $181.9 million, or 11%, and $5.2 billion, or 186%, compared to the three and nine months ended September 30, 2020, respectively. The increase was due to the market price of bitcoin and growth in the number of active bitcoin customers. The amount of bitcoin revenue recognized will fluctuate depending on customer demand as well as changes in the market price of bitcoin. This smaller increase in the three months ended September 30, 2021 was impacted by the stability in the price of bitcoin, which reduced buying and selling activity compared to prior quarters. While bitcoin revenue contributed 47% and 59% of the total net revenue in the three and nine months ended September 30, 2021, respectively, and 22% and 72% of the increase in total net revenues in the three and nine months ended September 30, 2021, respectively, gross profit generated from bitcoin transactions was only 4% and 5% of the total gross profit in the three and nine months ended September 30, 2021, compared to 4% and 3% of total gross profit in the three and nine months ended September 30, 2020, respectively.

Cost of Revenue (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
Transaction-based costs	$ 754,276	$ 524,056	$ 230,220	44 %	$ 1,965,894	$ 1,379,658	$ 586,236	42 %
Subscription and services-based costs	132,046	68,528	63,518	93 %	346,144	161,801	184,343	114 %
Hardware costs	51,150	45,220	5,930	13 %	153,035	108,348	44,687	41 %
Bitcoin costs	1,774,040	1,601,615	172,425	11 %	7,879,816	2,759,082	5,120,734	186 %
Total cost of revenue	$ 2,711,512	$ 2,239,419	$ 472,093	21 %	$ 10,344,889	$ 4,408,889	$ 5,936,000	135 %

Total cost of revenue for the three and nine months ended September 30, 2021 increased by $472.1 million, or 21%, and $5.9 billion, or 135%, compared to the three and nine months ended September 30, 2020, respectively. Bitcoin costs of revenue increased by $172.4 million and $5.1 billion in the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, respectively, and represented 37% and 86% of the increase in the total cost of revenue in the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020, respectively. Excluding bitcoin costs of revenue, total cost of revenue increased by approximately $299.7 million, or 47%, and $815.3 million, or 49%, in the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, respectively.

Transaction-based costs increased by $230.2 million, or 44%, and $586.2 million, or 42%, compared to the three and nine months ended September 30, 2020, respectively, while GPV grew by 43% and 51% in the same periods. Transaction-based costs during the three months ended September 30, 2021 were affected by a decrease in the percentage of debit card transactions which have a lower cost per transaction, and a decrease in average transaction sizes resulting in higher cost per transaction. However, for the nine months ended September 30, 2021, the overall percentage of debit card transactions was higher compared to the nine months ended September 30, 2020, resulting in a smaller percentage increase in transaction costs compared to the percentage increase in GPV, a trend which we do not expect to continue in future periods as transaction costs customarily increase in proportion to GPV.

Subscription and services-based costs for the three and nine months ended September 30, 2021 increased by $63.5 million, or 93%, and $184.3 million, or 114%, compared to the three and nine months ended September 30, 2020, respectively. The increase in the three and nine months ended September 30, 2021 was driven primarily by growth in Cash Card, Instant Deposit activity and costs related to music streaming services following the acquisition of TIDAL in the second quarter of 2021.

Hardware costs for the three and nine months ended September 30, 2021 increased by $5.9 million, or 13%, and $44.7 million, or 41%, compared to the three and nine months ended September 30, 2020, respectively. The increase was primarily due to the increased sales of hardware, as further discussed in hardware revenue above.

Bitcoin costs for the three and nine months ended September 30, 2021 increased by $172.4 million, or 11%, and $5.1 billion, or 186%, compared to the three and nine months ended September 30, 2020, respectively. Bitcoin cost of revenue comprises of the total amounts we pay to purchase bitcoin, which will fluctuate in line with bitcoin revenue.

Operating Expenses (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
Product development	$ 366,587	$ 227,550	$ 139,037	61 %	$ 1,003,238	$ 631,156	$ 372,082	59 %
% of total net revenue	*10 %*	*8 %*			*7 %*	*10 %*		
Sales and marketing	$ 407,850	$ 348,463	$ 59,387	17 %	$ 1,132,411	$ 781,094	$ 351,317	45 %
% of total net revenue	*11 %*	*11 %*			*8 %*	*12 %*		
General and administrative	$ 267,476	$ 153,902	$ 113,574	74 %	$ 684,405	$ 419,783	$ 264,622	63 %
% of total net revenue	*7 %*	*5 %*			*5 %*	*7 %*		
Transaction and loan losses	$ 62,306	$ 15,198	$ 47,108	310 %	$ 130,874	$ 161,684	$ (30,810)	(19) %
% of total net revenue	*2 %*	*1 %*			*1 %*	*3 %*		
Bitcoin impairment losses	$ 6,000	$ —	$ 6,000	— %	$ 71,126	$ —	$ 71,126	— %
% of total net revenue	*— %*	*— %*			*1 %*	*— %*		
Total operating expenses	$ 1,110,219	$ 745,113	$ 365,106	49 %	$ 3,022,054	$ 1,993,717	$ 1,028,337	52 %

Product development expenses for the three and nine months ended September 30, 2021 increased by $139.0 million and $372.1 million, or 61%, and 59%, respectively, compared to the three and nine months ended September 30, 2020, due primarily to the following:

- an increase of $105.9 million and $268.9 million in personnel costs for the three and nine months ended September 30, 2021, respectively, related to an increase in headcount among our engineering, data science, and design teams, as we continue to improve and diversify our products. The increase in personnel related costs includes an increase in share-based compensation expense of $42.5 million and $108.6 million for the three and nine months ended September 30, 2021, respectively; and

- an increase of $20.8 million and $83.0 million in software and data center costs, consulting, and certain Cash App crypto networks operating costs for the three and nine months ended September 30, 2021, respectively, as a result of increased capacity needs and expansion of our cloud-based services. Beginning in the third quarter of 2021, certain operating costs related to Cash App crypto network products that are offered for free were reclassified to sales and marketing, while the portion of operating costs attributable to revenue-generating products have been reclassified to cost of revenues.

Sales and marketing expenses for the three and nine months ended September 30, 2021 increased by $59.4 million or 17%, and $351.3 million or 45%, compared to the three and nine months ended September 30, 2020, respectively, primarily due to the following:

- an increase in Cash App marketing costs for the three and nine months ended September 30, 2021 of $13.4 million and $189.4 million, respectively. For the three months ended September 30, 2021 compared to the three months ended September 30, 2020, Cash App customer acquisition costs increased by $43.5 million, partially offset by a $33.4 million reduction related to lower processing costs and transaction losses. For the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, Cash App customer acquisition costs increased by $106.8 million while the processing costs and related transaction losses increased by $69.3 million primarily as a result of increased volume of activity with our Cash App peer-to-peer service and increased card issuance costs. Cash App customer acquisition costs include advertising costs and costs associated with various incentives to customers. We consider the free services such as stock investing, and certain Cash Card and peer-to-peer services to Cash App customers to be marketing initiatives aimed at attracting new customers and encouraging the usage of Cash App;

- an increase of $21.2 million and $57.6 million in sales and marketing personnel costs for the three and nine months ended September 30, 2021, respectively to enable growth initiatives. The increase in personnel related costs includes an increase in share-based compensation expense of $4.0 million and $13.3 million for the three and nine months ended September 30, 2021, respectively;
- an increase of $5.5 million and $55.7 million in advertising costs for our Seller services for the three and nine months ended September 30, 2021, respectively, primarily from increased online and television marketing campaigns; and
- an increase in sales and marketing expenses due to the recent acquisition of TIDAL completed in the second quarter of 2021.

General and administrative expenses for the three and nine months ended September 30, 2021 increased by $113.6 million or 74% and $264.6 million or 63%, compared to the three and nine months ended September 30, 2020, respectively, primarily due to the following:

- an increase of $54.5 million and $145.4 million in general and administrative personnel costs for the three and nine months ended September 30, 2021, respectively, mainly as a result of additions to our customer support, finance, and legal personnel as we continued to add resources and skills to support our long-term growth as our business continues to scale. The increase in personnel related costs includes an increase in share-based compensation expense of $8.1 million and $24.1 million for the three and nine months ended September 30, 2021, respectively; and
- the remaining increase was primarily due to an increase in software and subscription costs, third-party legal and other professional fees, including fees for acquisition-related expenses, and other administrative expenses.

Transaction and loan losses for the three and nine months ended September 30, 2021 increased by $47.1 million or 310%, and decreased by $30.8 million or 19%, compared to the three and nine months ended September 30, 2020, respectively, primarily due to the following:

- transaction losses for the three months ended September 30, 2021 increased by $44.3 million compared to the three months ended September 30, 2020, while transaction losses decreased by $9.4 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase in the three months ended September 30, 2021 was due to increased transaction volumes associated with Cash Card in the three months ended September 30, 2021. Additionally, for the three months ended September 30, 2020, we released certain previously established Seller risk loss provisions related to the first half of 2020 due to better than expected realized transaction losses, which offset transaction losses for that quarter. The decrease in the nine months ended September 30, 2021 was due to lower Seller risk loss provisions recorded as businesses recovered as a result of regional re-openings and broader macro economic recovery, reducing the risk of chargebacks related to uncollectibility. Overall, we recorded higher risk loss provisions for our Seller business in the prior year due to the expected impact of COVID-19.
- loan losses for the three months ended September 30, 2021 increased by $2.8 million compared to the three months ended September 30, 2020. Loan losses for the nine months ended September 30, 2021 decreased by $21.4 million compared to the nine months ended September 30, 2020. The slight increase in loan losses in the three months ended September 30, 2021 as compared to September 30, 2020 was due to increased loan volumes, whereas the primary driver for the decrease in loan losses in the nine months ended September 30, 2021 was due to the higher incremental provisions that were recorded during the first quarter of 2020 associated with the COVID-19 pandemic. Additionally, loan losses in the three and nine months ended September 30, 2021 also includes loan losses attributable to early stage products for Cash App.

Bitcoin impairment losses were $6.0 million and $71.1 million in the three and nine months ended September 30, 2021, respectively, due to the market price of bitcoin decreasing below the carrying value of our bitcoin investment observed during the period. As of September 30, 2021, the fair value of our investment in bitcoin was $351.7 million based on observable market prices, which is $202.8 million in excess of the carrying value of our investment of $148.9 million. Any unrealized gains on our bitcoin investment will only be recognized upon the sale of such bitcoin investment.

Interest Expense, Net, and Other Expense (Income), Net (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**	**2021**	**2020**	**$ Change**	**% Change**
Interest expense, net	$ 13,409	$ 14,980	$ (1,571)	(10) %	$ 20,126	$ 38,955	$ (18,829)	(48) %
Other expense (income), net	$ 12,011	$ (784)	$ 12,795	NM	$ (36,249)	$ (20,513)	$ (15,736)	77 %

Interest expense, net, for the three and nine months ended September 30, 2021 decreased by $1.6 million and $18.8 million, compared to the three and nine months ended September 30, 2020, respectively. The decrease was primarily due to lower non-cash interest expense related to our convertible notes as a result of the adoption of ASU No. 2020-06 on January 1, 2021. Under ASU No. 2020-06, convertible notes will no longer be separated into a debt and equity component, thereby eliminating the discount associated with the equity component and the interest expense associated with such discount. This was offset in part by increases in cash interest expense related to the issuance of the 2031 Senior Notes and 2026 Senior Notes issued in May 2021. Refer to Note 13, *Indebtedness*, of Notes to the Condensed Consolidated Financial Statements for further details.

Other income, net for the three and nine months ended September 30, 2021 decreased by $12.8 million and increased by $15.7 million compared to the three and nine months ended September 30, 2020, respectively. The decrease in the three months ended September 30, 2021 was due to the losses from the revaluation of investments in non-marketable equity securities, foreign exchange losses, and amortization of investments in marketable debt securities. The increase in the nine months ended September 30, 2021 was primarily due to the mark to market net gain of our equity investment in DoorDash of $44.4 million arising from the revaluation of this investment, offset in part by the losses from the revaluation of investments in non-marketable equity securities, foreign exchange losses, and amortization of investments in marketable debt securities. In June 2021, we completed the sale of our remaining investment in DoorDash and as a result of the sale, this investment will have no impact to our results in future periods.

Segment Results

Seller Results

The following tables provide a summary of the revenue and gross profit for our Seller segment for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
Net revenue	$ 1,393,444	$ 965,279	$ 428,165	44 %	$ 3,722,586	$ 2,542,102	1,180,484	46 %
Cost of revenue	787,219	555,948	231,271	42 %	2,063,208	1,461,302	601,906	41 %
Gross profit	$ 606,225	$ 409,331	$ 196,894	48 %	$ 1,659,378	$ 1,080,800	$ 578,578	54 %

Revenue

Revenue for the Seller segment for the three and nine months ended September 30, 2021 increased by $428.2 million, or 44%, and $1.2 billion or 46% compared to the three and nine months ended September 30, 2020, respectively. The increase was primarily due to growth in GPV attributable to continued improvements experienced in both card-present volumes as a result of regional re-openings and resumed in-person business at sellers, as well as growth in higher-priced card-not-present transactions. The increase in Seller subscription and services-based revenue in the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020 was primarily due to the increased origination volumes of Square Loans, other software subscriptions, Instant Transfer for sellers, and Square Debit Card, in addition to lower Seller subscription and services-based revenue in the three and nine months ended September 30, 2020 impacted by the suspension of facilitating loans in the second quarter of 2020, and the refund of software subscription fees to our customers in March and April of 2020.

Cost of revenue

Cost of revenue for the Seller segment for the three and nine months ended September 30, 2021 increased by $231.3 million or 42%, and $601.9 million or 41% compared to the three and nine months ended September 30, 2020, which was in line with the increase in Seller revenue of $428.2 million or 44%, and $1.2 billion or 46% for the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020. Transaction-based costs during the three months ended September 30, 2021 were affected by a decrease in the percentage of debit card transactions which have a lower cost per transaction, and a decrease in average transaction sizes resulting in higher cost per transaction. However, for the nine months ended September 30, 2021 the overall percentage of debit card transactions was higher compared to the nine months ended September 30, 2020, resulting in a smaller percentage increase in transaction costs compared to the percentage increase in GPV, a trend which we do not expect to continue in future periods as transactions costs customarily increase in proportion to GPV.

Cash App

The following tables provide a summary of the revenue and gross profit for our Cash App segment for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
Net revenue	$ 2,393,633	$ 2,068,595	$ 325,038	16 %	$ 9,763,440	$ 3,796,506	5,966,934	157 %
Cost of revenue	1,881,916	1,683,471	198,445	12 %	8,210,185	2,947,587	5,262,598	179 %
Gross profit	$ 511,717	$ 385,124	$ 126,593	33 %	$ 1,553,255	$ 848,919	$ 704,336	83 %

Revenue

Revenue for the Cash App segment for the three and nine months ended September 30, 2021 increased by $325.0 million, or 16%, and $6.0 billion or 157%, compared to the three and nine months ended September 30, 2020. The primary drivers were growth in bitcoin revenue, and, to a lesser extent, Cash App Instant Deposit, Cash Card, and Cash for Business. Bitcoin revenue increased due to the market price of bitcoin and growth in the number of active bitcoin customers. This smaller increase in the three months ended September 30, 2021 was impacted by the stability in the price of bitcoin, which affected trading activity compared to prior quarters. While bitcoin contributed 47% and 59% of the total net revenue and 22% and 72% of the increase in net revenues in the three and nine months ended September 30, 2021, respectively, gross profit generated from bitcoin was only 4% and 5% of the total gross profit. Excluding bitcoin revenue, Cash App revenue increased by $143.1 million or 33%, and $731.2 million or 75% in the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020 due to growth in numbers of active Cash App customers, increase in number of business accounts, broader macroeconomic recovery, and from government stimulus and relief programs enacted through the third quarter of 2021 in response to COVID-19. These programs provided government aid and unemployment benefits which resulted in an increase in consumer spending and inflows into our Cash App ecosystem. Cash App revenue growth may not be sustained at the same levels in future quarters and may be impacted by the enactment of further stimulus relief and benefit programs, as well as the demand and market prices for bitcoin, amongst other factors.

Cost of revenue

Cost of revenue for the Cash App segment for the three and nine months ended September 30, 2021 increased by $198.4 million, or 12%, and $5.3 billion or 179% compared to the three and nine months ended September 30, 2020. The primary driver for the increase was growth in bitcoin revenue and the associated costs of such revenue, as discussed further above. Excluding bitcoin cost of revenue, Cash App cost of revenue increased by approximately $26.0 million, or 32%, and $141.9 million or 75% in the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, due to growth in Cash Card, Cash App Instant Deposit, and Cash for Business.

Key Operating Metrics and Non-GAAP Financial Measures

We collect and analyze operating and financial data to evaluate the health of our business, allocate our resources, and assess our performance. In addition to total net revenue, net income (loss), and other results under generally accepted accounting principles (GAAP), the following table sets forth key operating metrics and non-GAAP financial measures we use to evaluate our business. We believe these metrics and measures are useful to facilitate period-to-period comparisons of our business and to facilitate comparisons of our performance to that of other payment solution providers.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Gross Payment Volume (GPV) (in millions)	$ 45,426	$ 31,729	$ 121,392	$ 80,272
Adjusted EBITDA (in thousands)	$ 233,406	$ 181,320	$ 829,475	$ 288,582
Adjusted Net Income Per Share:				
Basic	$ 0.41	$ 0.39	$ 1.64	$ 0.57
Diluted	$ 0.37	$ 0.34	$ 1.44	$ 0.51

Gross Payment Volume (GPV)

We define GPV as the total dollar amount of all card payments processed by sellers using Square, net of refunds, and ACH transfers. Additionally, GPV includes Cash App activity related to Cash for Business and peer-to-peer payments sent from a credit card. Cash for Business includes peer-to-peer transactions received by business accounts using Cash App.

Adjusted EBITDA and Adjusted Net Income (Loss) Per Share (Adjusted EPS)

Adjusted EBITDA and Adjusted EPS are non-GAAP financial measures that represent our net income (loss) and net income (loss) per share, adjusted to eliminate the effect of items as described below. We have included these non-GAAP financial measures in this Quarterly Report on Form 10-Q because they are key measures used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Accordingly, we believe these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. In addition, they provide useful measures for period-to-period comparisons of our business, as they remove the effect of certain non-cash items and certain variable charges.

- We believe it is useful to exclude certain non-cash charges, such as amortization of intangible assets, and share-based compensation expenses, from our non-GAAP financial measures because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.

- In connection with the issuance of our convertible senior notes (as described in Note 13, *Indebtedness,* of the Notes to the Condensed Consolidated Financial Statements), prior to the adoption of ASU No. 2020-06 on January 1, 2021, we were required to recognize non-cash interest expense related to amortization of debt discount and issuance costs. Subsequent to the adoption, we only recognize non-cash interest expense related to amortization of debt issuance costs on convertible notes and unsecured senior notes. We believe that excluding these expenses from our non-GAAP measures is useful to investors because such incremental non-cash interest expense does not represent a current or future cash outflow for the Company and is therefore not indicative of our continuing operations or meaningful when comparing current results to past results. Additionally, for purposes of calculating diluted Adjusted EPS, we add back cash interest expense on convertible senior notes, as if-converted at the beginning of the period, if the impact is dilutive.

- We exclude gain or loss on the disposal of property and equipment, gain or loss on revaluation of equity investments, bitcoin impairment losses, and prior to the adoption of ASU No. 2020-06 on January 1, 2021, gain or loss on debt extinguishment related to the conversion of convertible notes, as applicable, from non-GAAP financial measures because we do not believe that these items are reflective of our ongoing business operations.

- We also exclude certain costs associated with acquisitions that are not normal operating expenses, including amounts paid to redeem acquirees' unvested share-based compensation awards, and legal, accounting and due diligence costs, and we add back the impact of the acquired deferred revenue and deferred cost adjustment, which was written down to fair value in purchase accounting.

In addition to the items above, Adjusted EBITDA as a non-GAAP financial measure also excludes depreciation, other cash interest income and expense, other income and expense and provision or benefit from income taxes, as these items are not components of our core business operations.

Non-GAAP financial measures have limitations, should be considered as supplemental in nature and are not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- share-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;

- the intangible assets being amortized may have to be replaced in the future, and the non-GAAP financial measures do not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments; and

- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs.

In addition to the limitations above, Adjusted EBITDA as a non-GAAP financial measure does not reflect the effect of depreciation expense and related cash capital requirements, income taxes that may represent a reduction in cash available to us, and the effect of foreign currency exchange gains or losses which is included in other income and expense, net.

Other companies, including companies in our industry, may calculate the non-GAAP financial measures differently or not at all, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider the non-GAAP financial measures alongside other financial performance measures, including net income (loss) and our other financial results presented in accordance with GAAP.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net income (loss) attributable to common stockholders	$ 84	$ 36,515	$ 243,113	$ (80,854)
Net income (loss) attributable to noncontrolling interests	(2,960)	—	(3,303)	—
Net income (loss)	(2,876)	36,515	239,810	(80,854)
Share-based compensation expense	165,011	110,389	429,999	283,872
Depreciation and amortization	38,110	20,624	95,705	61,741
Interest expense, net	13,409	14,980	20,126	38,955
Other expense (income), net	12,011	(784)	(36,249)	(20,513)
Bitcoin impairment losses	6,000	—	71,126	—
Loss on disposal of property and equipment	877	396	1,866	2,095
Acquisition related and other costs	308	359	14,626	3,939
Acquired deferred revenue adjustment	159	281	606	1,240
Acquired deferred costs adjustment	(55)	(71)	(179)	(307)
Provision (benefit) for income taxes	452	(1,369)	(7,961)	(1,586)
Adjusted EBITDA	$ 233,406	$ 181,320	$ 829,475	$ 288,582

The following table presents a reconciliation of net income (loss) to Adjusted net income (loss) and Adjusted EPS for each of the periods indicated (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss) attributable to common stockholders	$ 84	$ 36,515	$ 243,113	$ (80,854)
Net income (loss) attributable to noncontrolling interests	(2,960)	—	(3,303)	—
Net income (loss)	(2,876)	36,515	239,810	(80,854)
Share-based compensation expense	165,011	110,389	429,999	283,872
Amortization of intangible assets	11,140	5,236	27,258	13,522
Amortization of debt issuance costs	2,868	17,516	7,005	47,624
Loss (gain) on revaluation of equity investment	6,836	—	(41,008)	(20,998)
Bitcoin impairment losses	6,000	—	71,126	—
Loss on extinguishment of long-term debt	—	1,403	—	2,393
Loss on disposal of property and equipment	877	396	1,866	2,095
Acquisition related and other costs	308	359	14,626	3,939
Acquired deferred revenue adjustment	159	281	606	1,240
Acquired deferred costs adjustment	(55)	(71)	(179)	(307)
Adjusted Net Income - basic	$ 190,268	$ 172,024	$ 751,109	$ 252,526
Cash interest expense on convertible senior notes	$ 1,494	$ 1,544	$ 4,833	$ 4,482
Adjusted Net Income - diluted	$ 191,762	$ 173,568	$ 755,942	$ 257,008
Weighted-average shares used to compute Adjusted Net Income Per Share:				
Basic	460,654	444,458	457,039	439,855
Diluted	525,003	514,806	524,048	501,757
Adjusted Net Income Per Share:				
Basic	$ 0.41	$ 0.39	$ 1.64	$ 0.57
Diluted	$ 0.37	$ 0.34	$ 1.44	$ 0.51

To calculate the diluted Adjusted EPS we adjust the weighted-average number of shares of common stock outstanding for the dilutive effect of all potential shares of common stock.

In periods when we recorded an Adjusted Net Loss, the diluted Adjusted EPS is the same as basic Adjusted EPS because the effects of potentially dilutive items were anti-dilutive given the Adjusted Net Loss position.

Liquidity and Capital Resources

We continued to experience improvements in our business as the majority of U.S. markets transitioned to varying states of economic recovery and reopenings. Although our outlook and business results continue to be positive, the extent to which the COVID-19 pandemic will further impact our results of operations, financial condition and cash flows in the future is unknown. We continue to evaluate our investment plans and discretionary expenditures and will make adjustments accordingly.

As of September 30, 2021, we had approximately $7.4 billion in available funds, including an undrawn amount of $500.0 million available under our revolving credit facility, as described in Note 13, *Indebtedness*, of Notes to the Condensed Consolidated Financial Statements. We intend to continue focusing on our long-term business initiatives and believe that our available funds are sufficient to meet our liquidity needs for the foreseeable future. We are carefully monitoring and managing our cash position in light of ongoing conditions and levels of operations. As of September 30, 2021, we were in compliance with all financial covenants associated with the 2020 Credit Facility and Senior Notes.

Liquidity Sources

The following table summarizes our cash, cash equivalents, restricted cash, and investments in marketable debt securities (in thousands):

	September 30, 2021	December 31, 2020
Cash and cash equivalents	$ 4,514,609	$ 3,158,058
Short-term restricted cash	14,420	30,279
Long-term restricted cash	73,420	13,526
Cash, cash equivalents, and restricted cash	$ 4,602,449	$ 3,201,863
Investments in short-term debt securities	868,809	695,112
Investments in long-term debt securities	1,451,107	463,950
Cash, cash equivalents, restricted cash, and investments in marketable debt securities	$ 6,922,365	$ 4,360,925

Our principal sources of liquidity are our cash and cash equivalents and investments in marketable debt securities. As of September 30, 2021, we had $6.9 billion of cash and cash equivalents, restricted cash, and investments in marketable debt securities, which were held primarily in cash deposits, money market funds, reverse repurchase agreements, U.S. government and agency securities, commercial paper, and corporate bonds. We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Our investments in marketable debt securities are classified as available for sale. From time to time, we have raised capital by issuing equity, equity-linked, or debt securities such as our convertible senior notes.

As of September 30, 2021, we held over $4.8 billion in aggregate principal amount of long-term debt, comprised of $4.7 million in aggregate principal amount of outstanding convertible senior notes that mature on March 1, 2022 ("2022 Convertible Notes"), $642.5 million in aggregate principal amount of convertible senior notes that mature on May 15, 2023 ("2023 Convertible Notes"), $1.0 billion in aggregate amount of convertible senior notes that mature on March 1, 2025 ("2025 Convertible Notes"), and $575.0 million and $575.0 million in aggregate amount of convertible senior notes that mature on May 1, 2026, and November 1, 2027, respectively ("2026 Convertible Notes" and "2027 Convertible Notes," respectively). Additionally, on May 20, 2021, we issued $1.0 billion and $1.0 billion in aggregate principal amount of outstanding senior unsecured notes that mature on June 1, 2026 and June 1, 2031, respectively ("2026 Senior Notes" and "2031 Senior Notes"). The 2022 Convertible Notes bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year, while the 2023 Convertible Notes bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year, and the 2025 Convertible Notes bear interest at a rate of 0.125% payable semi-annually on March 1 and September 1 of each year. The 2026 Convertible Notes bear no interest, whereas, the 2027 Convertible Notes bear interest at a rate of 0.25% payable semi-annually on May 1 and November 1 of each year. These convertible senior notes can be converted or repurchased prior to maturity if certain conditions are met. The 2026 Senior Notes bear interest a rate of 2.75% payable semi-annually on June 1 and December 1, while the 2031 Senior Notes bear interest at a rate of 3.50% payable semi-annually on June 1 and December 1 of each year. These Senior Notes can be redeemed or repurchased prior to maturity if certain conditions are met.

We purchased $50.0 million and $170.0 million in bitcoin in October 2020 and February 2021, respectively, as we believe cryptocurrency is an instrument of economic empowerment that aligns with our corporate purpose. We expect to hold these investments for the long term but will continue to reassess our investment in bitcoin relative to our balance sheet. As bitcoin is considered an indefinite lived intangible asset, under the accounting policy for such assets we will be required to recognize any decreases in market prices below carrying value as an impairment charge, with any mark up in value prohibited if the market price of bitcoin subsequently increases. We recorded impairment charges of $6.0 million and $71.1 million in the three and nine months ended September 30, 2021 due to the observed market price of bitcoin decreasing below the carrying value during the period. As of September 30, 2021, the fair value of our investment in bitcoin was $351.7 million based on observable market prices which is $202.8 million in excess of the Company's carrying value of $148.9 million. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale of the asset.

In September 2020, we announced our intent to invest $100 million in supporting underserved communities, particularly, racial and ethnic minority groups who have been disproportionately affected by COVID-19. This initiative further deepens our commitment toward economic empowerment to help broaden such communities' access to financial services. As of September 30, 2021, we have invested $18.0 million in aggregate towards this initiative, of which $0.1 million and $17.5 million were invested in the three and nine months ended September 30, 2021, respectively.

In June 2020, we entered into the Paycheck Protection Program Liquidity Facility agreement with the Federal Reserve Bank of San Francisco ("First PPPLF Agreement") to secure additional credit collateralized by PPP loans. The advances under this facility are repayable if the associated PPP loans are forgiven, repaid by a customer or settled by the government guarantee. On January 29, 2021, we entered into a second PPPLF agreement with the Federal Reserve Bank of San Francisco ("Second PPPLF Agreement") to secure additional credit, collateralized by loans from the second round of the PPP program, in an aggregate principal amount of up to $1.0 billion under both PPPLF Agreements. As of September 30, 2021, $725.7 million of PPPLF advances were outstanding and are, generally, collateralized by the same value of PPP loans. Any differences between the amounts are generally due to the timing of PPP loan repayment or forgiveness, and repayment of PPPLF advances.

In May 2020, we entered into a new revolving credit agreement with certain lenders, as subsequently amended, which provides a $500 million senior unsecured revolving credit facility (the "2020 Credit Facility") maturing in May 2023. Loans under the 2020 Credit Facility bear interest at our option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and the adjusted LIBOR rate plus 1.00%, in each case, plus a margin ranging from 0.25% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.75%. The margin is determined based on our total net leverage ratio, as defined in the agreement. We are obligated to pay other customary fees for a credit facility of this size and type including an unused commitment fee of 0.15%. To date, no funds have been drawn and no letters of credit have been issued under the 2020 Credit Facility.

See Note 13, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on these transactions.

We believe that our existing cash and cash equivalents, investment in marketable debt securities, and availability under our line of credit will be sufficient to meet our working capital needs, including any expenditures related to strategic transactions and investment commitments that we may from time to time enter into, and planned capital expenditures for at least the next 12 months. From time to time, we may seek to raise additional capital through equity, equity-linked, and debt financing arrangements. We cannot provide assurance that any additional financing will be available to us on acceptable terms or at all.

Short-term restricted cash of $14.4 million as of September 30, 2021 reflects pledged cash deposited into savings accounts at the financial institutions that process our sellers' payments transactions and as collateral pursuant to agreements with third party originating banks for certain loan products. We use the restricted cash to secure letters of credit with these financial institutions to provide collateral for liabilities arising from cash flow timing differences in the processing of these payments. We have recorded this amount as a current asset on our condensed consolidated balance sheets given the short-term nature of these cash flow timing differences and that there is no minimum time frame during which the cash must remain restricted. Additionally, this balance includes certain amounts held as collateral pursuant to multi-year lease agreements, discussed in the paragraph below, which we expect to become unrestricted within the next year.

Long-term restricted cash of $73.4 million as of September 30, 2021 is primarily related to a reserve deposit to satisfy the capital and liquidity requirements associated with the banking operations of SFS mandated by the FDIC, as well as cash deposited into money market funds that is used as collateral pursuant to multi-year lease agreements. We have recorded these amounts as non-current assets on the condensed consolidated balance sheets as we are required to establish and maintain the reserve deposit at all times to support the ongoing liquidity obligations of SFS, and due to certain lease terms extending beyond one year.

We experience significant day-to-day fluctuations in our cash and cash equivalents due to fluctuations in settlements receivable and customers payable, and hence working capital. These fluctuations are primarily due to:

- *Timing of period end.* For periods that end on a weekend or a bank holiday, our cash and cash equivalents, settlements receivable, and customers payable balances typically will be higher than for periods ending on a weekday, as we settle to our sellers for payment processing activity on business days; and

- *Fluctuations in daily GPV.* When daily GPV increases, our cash and cash equivalents, settlements receivable, and customers payable amounts increase. Typically our settlements receivable and customers payable balances at period end represent one to four days of receivables and disbursements to be made in the subsequent period. Customers payable, excluding amounts attributable to Cash App stored funds, and settlements receivable balances typically move in tandem, as pay-out and pay-in largely occur on the same business day. However, customers payable balances will be greater in amount than settlements receivable balances due to the fact that a subset of funds are held due to unlinked bank accounts, risk holds, and chargebacks. Also customer funds obligations, which are included in customers payable, may cause customers payable to trend differently than settlements receivable. Holidays and day-of-week may also cause significant volatility in daily GPV amounts.

Cash Flow Activities

The following table summarizes our cash flow activities (in thousands):

	Nine Months Ended September 30,	
	2021	**2020**
Net cash provided by operating activities	$ 672,776	$ 260,877
Net cash used in investing activities	(1,256,619)	(531,713)
Net cash provided by financing activities	1,998,740	1,331,424
Effect of foreign exchange rate on cash and cash equivalents	(14,311)	772
Net increase in cash, cash equivalents, and restricted cash	$ 1,400,586	$ 1,061,360

Cash Flows from Operating Activities

Cash provided by operating activities consisted of our net income (loss) adjusted for certain non-cash items, including gain or loss on revaluation of equity investments, depreciation and amortization, non-cash interest and other expense, share-based compensation expense, transaction and loan losses, bitcoin impairment losses, deferred income taxes, non-cash lease expense, as well as the effect of changes in operating assets and liabilities, including working capital.

For the nine months ended September 30, 2021, cash provided by operating activities was $672.8 million. Net income was $239.8 million, adjusted for the add back of non-cash expenses of $763.8 million, consisting primarily of share-based compensation, transaction and loan losses, bitcoin impairment losses, depreciation and amortization, and non-cash lease expenses, which contributed positively to operating activities. This was offset by net PPP loans facilitated of $184.6 million, as well as a net outflow from changes in other assets and liabilities of $146.3 million due to timing of period end.

For the nine months ended September 30, 2020, cash provided by operating activities was $260.9 million. Net loss was $80.9 million, PPP loans facilitated, less loans sold, of $462.1 million, adjusted for the add back of non-cash expenses of $588.7 million, consisting primarily of share-based compensation, transaction and loan losses, depreciation and amortization, and non-cash interest and other expenses. Whereas the increase in transaction and loan losses was largely caused by estimated losses attributable to the COVID-19 pandemic, the increase in other non-cash expenses was primarily due to the growth and expansion of our business activities. Additionally, the cash generated from operating activities increased due to a net inflow from changes in other assets and liabilities of $215.1 million due to timing of period end.

Cash Flows from Investing Activities

Cash flows used in investing activities primarily relate to capital expenditures to support our growth, investments in marketable debt securities, bitcoin, and business acquisitions.

For the nine months ended September 30, 2021, cash used in investing activities was $1.3 billion, primarily due to the net investments of marketable securities including investments from customer funds of $1.2 billion, purchases of bitcoin and other investments of $217.6 million, business acquisitions, net of cash acquired of $164.0 million, as well as the purchase of property and equipment of $98.0 million, partially offset by the proceeds from sale of equity investments of $420.6 million.

For the nine months ended September 30, 2020, cash used in investing activities was $531.7 million, primarily due to the net proceeds from investments of marketable securities including investments from customer funds of $416.1 million. Additional uses of cash were as a result of the purchase of property and equipment of $86.4 million and business acquisitions, net of cash acquired of $29.2 million.

Cash Flows from Financing Activities

For the nine months ended September 30, 2021, cash provided by financing activities was $2.0 billion primarily as a result of $2.0 billion in net proceeds from the 2031 Senior Notes and 2026 Notes offerings, the proceeds, net of repayments of the PPPLF advances of $261.6 million, proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $84.9 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $312.4 million.

For the nine months ended September 30, 2020, cash provided by financing activities was $1.3 billion primarily as a result of $936.5 million in net proceeds from the 2025 Convertible Notes offering, proceeds from the PPPLF advances of $473.5 million, proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $106.6 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $182.6 million.

Contractual Obligations and Commitments

On May 20, 2021, the Company issued an aggregate principal amount of $2.0 billion senior unsecured notes comprised of $1.0 billion of senior unsecured notes due 2026 ("2026 Senior Notes") and $1.0 billion senior unsecured notes due 2031 ("2031 Senior Notes"). The 2026 Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased, and bear interest at a rate of 2.75% payable semi-annually on June 1 and December 1. The 2031 Senior Notes mature on June 1, 2031, unless earlier redeemed or repurchased, and bear interest at a rate of 3.50% payable semi-annually on June 1 and December 1 of each year. See Note 13, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on this transaction.

On January 29, 2021, we entered into a second Paycheck Protection Program Liquidity Facility agreement with the Federal Reserve Bank of San Francisco (“Second PPPLF Agreement” and together with the First PPPLF Agreement, “PPPLF Agreements”) to secure additional credit in an aggregate principal amount of up to $1.0 billion under both PPPLF Agreements. Borrowings under the facility accrue interest at a rate of 0.35% and must be collateralized with loans originated under the PPP. The maturity date of any PPPLF advances will be the maturity date of the PPP loan pledged to secure the advance, and will be accelerated upon the occurrence of certain events of default. Although loans originated under the PPP have a stated maturity of between two and five years from origination, some of the loans may be forgiven 24 weeks after disbursement if they meet certain specified criteria. The PPPLF advances are also repayable if the underlying PPP loan is repaid by the customer. As of September 30, 2020, $725.7 million of PPPLF advances were outstanding and are, generally, collateralized by the same value of PPP loans. Any differences between the amounts are generally due to the timing of PPP loan repayment or forgiveness, and repayment of PPPLF advances. See Note 13, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on this transaction.

With the exception of the Senior Notes and PPPLF advances, there were no material changes in our commitments under contractual obligations, except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements during the periods presented.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. GAAP requires us to make certain estimates and judgments that affect the amounts reported in our financial statements. We base our estimates on historical experience, anticipated future trends, and other assumptions we believe to be reasonable under the circumstances. Because these accounting policies require significant judgment, our actual results may differ materially from our estimates.

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, we believe accounting policies and the assumptions and estimates associated with transaction and loan losses could potentially have a material effect on our condensed consolidated financial statements and is therefore a critical accounting policy and estimate.

Additionally, as a result of the acquisition of TIDAL and the contemplated acquisition of Afterpay, we consider accounting for business combinations under ASC 805, *Business Combinations,* to also be a critical accounting policy and estimate as it requires management to make significant estimates and assumptions, including the valuation of intangible assets acquired, determination of fair values of liabilities assumed including pre-acquisition contingencies and valuation of contingent consideration, where applicable. Although we believe that the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" described in Note 1, *Description of Business and Summary of Significant Accounting Policies,* of the Notes to the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and globally, and we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these market risks is described below.

Equity Price Risk

Non-Marketable Equity Investments

Our non-marketable equity investments are investments in privately-held companies that we hold for purposes other than trading. These investments are inherently risky because there is no established market for these securities and the markets for the technologies or products these companies are developing are typically in the early stages. As such, we could lose our entire investment in these companies. Adjustments are recorded in other expense (income), net on the condensed consolidated statements of operations and establish a new carrying value for the investment. As of September 30, 2021, the aggregate carrying value of our non-marketable equity investments included in other non-current assets was $82.2 million. A hypothetical 10% increase or decrease in the carrying value of our non-marketable equity investments would have resulted in approximately $8.2 million increase or decrease in the value of the investment. Adjustments are recorded in other expense (income), net on the condensed consolidated statements of operations.

Bitcoin Market Price Risk

The Company invested $50.0 million and $170.0 million in bitcoin in the fourth quarter of 2020 and first quarter of 2021, respectively. Bitcoin is accounted for as an indefinite lived intangible asset, and thus, is subject to impairment losses if the fair value of bitcoin decreases below the carrying value during the assessed reporting period. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale of the asset. As of September 30, 2021, the fair value of the investment in bitcoin was $351.7 million based on observable market prices resulting in $202.8 million in unrecognized gains. The Company recorded an impairment charge of $6.0 million and $71.1 million in the three and nine months ended September 30, 2021 due to fluctuations in the market price of bitcoin observed during the period. A hypothetical 10% increase or decrease in the market price of bitcoin as of September 30, 2021 would have resulted in approximately $14.9 million increase or decrease in the value of the bitcoin investment. Any decreases to the carrying value of bitcoin assets are recorded in operating expenses in the condensed consolidated statements of operations.

Interest Rate Sensitivity

Our cash and cash equivalents, and marketable debt securities as of September 30, 2021, were held primarily in cash deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate bonds. The fair value of our cash, cash equivalents, and marketable debt securities would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of a majority of these instruments. Additionally, we have the ability to hold these instruments until maturity if necessary to reduce our risk. Any future borrowings incurred under our credit facility would accrue interest at a floating rate based on a formula tied to certain market rates at the time of incurrence (as described above). A hypothetical 10% increase or decrease in interest rates would not have a material effect on our financial results.

Foreign Currency Risk

Most of our revenue is earned in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our foreign operations are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Japanese Yen, Canadian Dollar, Australian Dollar, Euro and British Pound. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. A 10% increase or decrease in current exchange rates would not have a material impact on our financial results.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

We are currently a party to, and may in the future be involved in, various litigation matters (including intellectual property litigation), legal claims, and government investigations. For information regarding legal proceedings in which we are involved, see "Litigation" in Note 18, *Commitments and contingencies* of the accompanying notes to our condensed consolidated financial statements, which is incorporated herein by reference.

In addition, from time to time, we are involved in various other litigation matters and disputes arising in the ordinary course of business. We cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these other matters. While we do not believe, at this time, that any ultimate liability resulting from any of these other matters will have a material adverse effect on our results of operations, financial position, or liquidity, we cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to our operating results for any particular period.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes, before making any investment decision with respect to our securities. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 under the heading "Risk Factors."

Risk Factors Summary

Our business operations are subject to numerous risks and uncertainties, including those outside of our control, that could cause our actual results to be harmed, including risks regarding the following:

Risks related to our business and our industry:

- the ongoing COVID-19 pandemic and measures intended to prevent its spread;
- our participation in government relief programs set up in response to the COVID-19 pandemic;
- our ability to maintain, protect, and enhance our brand;
- our ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers, as well as our ability to attract and retain Cash App customers and grow their use of Cash App services;
- our investments in our business and ability to maintain profitability;
- our efforts to expand our product portfolio and market reach;
- our ability to develop products and services to address the rapidly evolving market for payments and financial services;
- competition in our industry;
- expanding our business globally;
- any acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures and other transactions that we may undertake, including our proposed acquisition of Afterpay;
- additional risks of Square Banking relating to the structure of bank partnerships, and FDIC and other regulatory obligations; and
- additional risks of Square Loans related to the availability of capital, seller payments, interest rate, deposit insurance premiums, and general macroeconomic conditions.

Operational risks:

- real or perceived improper or unauthorized use of, disclosure of, or access to sensitive data;
- real or perceived security breaches or incidents or human error in administering our software, hardware, and systems;
- systems failures, interruptions, delays in service, catastrophic events, and resulting interruptions in the availability of our products or services or those of our sellers;
- any inability to access our private keys required to access our bitcoins or any hack or other data loss relating to the bitcoins we hold;
- our risk management efforts;
- our dependence on payment card networks and acquiring processors;
- our reliance on third parties and their systems for a variety of services, including the processing of transaction data and settlement of funds;
- our dependence on key management and any failure to attract, motivate, and retain our employees;
- our operational, financial, and other internal controls and systems;
- the integration of our services with a variety of operating systems and the interoperation of our hardware that enables merchants to accept payment cards with third-party mobile devices utilizing such operating systems;
- any shortage, price increases, tariffs, changes, delay or discontinuation of our key components;
- our ability to accurately forecast demand for our products and adequately manage our product inventory;
- difficulties estimating the amount payable under TIDAL's license agreements; and
- manipulation of stream counts on TIDAL.

Economic, financial, and tax risks:

- a deterioration of general macroeconomic conditions;
- any greater-than-anticipated tax liabilities or significant valuation allowances on our deferred tax assets;
- any inability to secure financing on favorable terms, or at all, or covenants in our existing credit agreement, the indentures, or future agreements;
- our ability to service our convertible notes and our senior notes; and
- counterparty risk with respect to our convertible note hedge transactions.

Legal, regulatory, and compliance risks:

- extensive regulation and oversight in a variety of areas of our business;
- complex and evolving regulations and oversight related to privacy and data protection;
- obligations and restrictions as a licensed money transmitter;
- regulation and scrutiny of our subsidiary Square Financial Services, which is a Utah state-chartered industrial bank, including the requirement that we serve as a source of financial strength to it;
- supervision and regulation of Square Financial Services, including the Dodd-Frank Act and its related regulations;
- regulation and scrutiny of our subsidiary Cash App Investing, which is a broker-dealer registered with the SEC and a member of FINRA, including net capital and other regulatory capital requirements;
- changes to our business practices imposed by FINRA based on our ownership of Cash App Investing;
- litigation, including intellectual property claims, government investigations or inquiries, and regulatory matters or disputes;
- any inability to protect our intellectual property rights;
- assertions by third parties of infringement of intellectual property rights by TIDAL; and
- our bitcoin investments being subject to volatile market prices, impairment, and other risks of loss.

Risks related to our proposed acquisition of Afterpay:

- additional liabilities in connection with the proposed acquisition and integration of Afterpay;
- the failure to timely integrate Afterpay;
- disruption in our or Afterpay's business relationships due to the proposed acquisition;
- additional regulatory and competitive risks in the buy now, pay later space;
- risks of default in consumer repayments of borrowings in Afterpay's business; and
- increased foreign currency exchange rate risk following the completion of our proposed acquisition of Afterpay.

Risks related to ownership of our common stock:

- the dual class structure of our common stock;
- volatility of the market price of our Class A common stock;
- our convertible note hedge and warrant transactions;
- anti-takeover provisions contained in our amended and restated certificate of incorporation, our amended and restated bylaws, and provisions of Delaware law; and
- exclusive forum provisions in our bylaws.

Risks Related to Our Business and Our Industry

The ongoing COVID-19 pandemic and measures intended to prevent its spread may have a material and adverse effect on our business and results of operations.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and reduced economic activity. Small businesses, which constitute a large part of our sellers, have been impacted particularly hard. The pandemic has resulted in government authorities and businesses implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders, school closures, and business limitations and shutdowns. Such measures have contributed significantly to increased unemployment and negatively impacted consumer and business spending. Further, the pandemic has contributed to worldwide supply chain disruption, which has adversely affected, and is expected to continue to adversely affect businesses and the economy.

The pandemic has caused us to modify our business practices to help minimize the risk of the virus to our employees, our customers, and the communities in which we participate, which could negatively impact our business. We continue to permit employees to work remotely. As the availability of vaccines has increased and COVID-19 case rates have diminished, we have gradually begun a phased reopening of our offices. Where local health guidelines permit, vaccinated employees have been allowed to return to offices on a voluntary basis in the U.S. We continue to employ additional safety measures in our offices, including enhanced cleaning and sanitation, limiting external guests visiting our offices, and holding most meetings and events virtually. Local conditions may require us to move back under more restrictive guidelines, which could include mandatory remote work and additional safety measures. Given the continually evolving situation, there is no certainty that the measures we have taken will be sufficient to mitigate the risks posed by the virus.

The extent to which the COVID-19 pandemic continues to impact our business, results of operations, and financial condition will depend on developments that remain uncertain and difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, the availability, distribution and efficacy of vaccines, and how quickly and to what extent normal economic and operating conditions resume. Even after the COVID-19 pandemic has subsided, we may experience material and adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, bankruptcies or insolvencies of customers, and recession or economic downturn.

Our participation in government relief programs set up in response to the COVID-19 pandemic, such as facilitating loans to businesses under the Paycheck Protection Program or unemployment benefits, stimulus, and child tax credit payments to individuals through Cash App, may subject us to new risks and uncertainties.

Our participation in, or facilitation of, government relief programs set up in response to the COVID-19 pandemic may expose us to new risks and uncertainties.

Square Capital is an approved participant under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA") and enacted in March 2020 under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in response to the COVID-19 pandemic. The PPP was intended to provide funding for businesses so they can retain employees and includes initial loan repayment deferrals and debt forgiveness provisions for eligible borrowers. Under the PPP, Square Capital, through a bank partner (and directly with respect to the second round of PPP loans), provided small businesses two-year or five-year loans at a fixed interest rate of one percent for up to 2.5 times (or 3.5 times with respect to restaurants qualifying for a second PPP loan) the borrower's prior-year average monthly payroll expenses, subject to certain limitations. PPP loans are eligible for forgiveness under the program, subject to numerous limitations. As of September 30, 2021, Square Capital had facilitated approximately $1.5 billion of PPP loans, excluding cancelled loans. Square Capital retained most of these PPP loans in its portfolio, but also sold 100% participation rights in certain of the first-round PPP loans to an institutional third-party investor. In addition, Square Capital has borrowed money from the Federal Reserve secured by PPP loans in its portfolio.

As a participant in the PPP, Square Capital is exposed to risks and uncertainties related to documentation, verification, forgiveness, and servicing of such loans. In the event that it is determined that a borrower does not qualify for loan forgiveness or if a borrower defaults on its PPP loan, Square Capital is at risk to the extent the SBA may decline to honor its guarantee or to forgive the loan due to documentation or verification errors, failure to follow regulatory requirements, or lack of adherence to underwriting standards. As a result, Square Capital's documentation, review, underwriting, and servicing processes will be subject to scrutiny, and we could incur losses if we fail to comply with the SBA documentation and other requirements. We also may become subject to litigation arising as a result of our participation in the PPP, which could result in significant financial liability or could adversely affect our reputation. There can be no assurance that Square Capital will be successful in mitigating all of the risks associated with the PPP or that this lending will not have a negative impact on Square Capital's business and results of operations.

Separately, the CARES Act, the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act provided for stimulus funds, called economic impact payments, to individuals, expanded eligibility for unemployment benefits, increased the amount of and extended the period for unemployment insurance benefits, and more recently, provided child tax credit payments to qualifying households. Cash App has been facilitating the payment of such stimulus funds, unemployment benefits, and child tax credit payments by offering account and routing numbers that customers can use to deposit such payments directly into their Cash App accounts and accepting cash-in deposits from prepaid cards issued by state governments. Cash App has also worked with partner banks to expand direct deposit eligibility for its customers. The federal programs were set up quickly and under difficult and unprecedented circumstances and the implementation of these programs at the federal, state, and local levels has been complex and difficult, causing them to be more susceptible to fraud, data breaches, technical difficulties, and other new and uncertain risks. Cash App's facilitation of unemployment, stimulus, and child tax credit payments exposes us to operational, compliance, reputational, and legal risks, which could result in governmental action, litigation, or other forms of material and adverse loss.

Our business depends on a strong and trusted brand, and any failure to maintain, protect, and enhance our brand would hurt our business.

We have developed a strong and trusted brand that has contributed significantly to the success of our business. We believe that maintaining and promoting our brand in a cost-effective manner is critical to achieving widespread acceptance of our products and services and expanding our base of customers. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable, secure, and innovative products and services, as well as our ability to maintain trust and be a technology leader. We may introduce, or make changes to, features, products, services, privacy practices, or terms of service that customers do not like, which may materially and adversely affect our brand. Our brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business could be materially and adversely affected.

The introduction and promotion of new products and services, as well as the promotion of existing products and services, may be partly dependent on our visibility on third-party advertising platforms, such as Google, Twitter, or Facebook. Changes in the way these platforms operate or changes in their advertising prices, data use practices or other terms could make the maintenance and promotion of our products and services and our brand more expensive or more difficult. If we are unable to market and promote our brand on third-party platforms effectively, our ability to acquire new customers would be materially harmed. We also use retail partners to sell hardware and acquire customers. Our ability to acquire new customers could be materially harmed if we are unable to enter into or maintain these partnerships on terms that are commercially reasonable to us, or at all.

Harm to our brand can arise from many sources, including failure by us or our partners and service providers to satisfy expectations of service and quality; inadequate protection or misuse of sensitive information; fraud committed by third parties using our products or applications; compliance failures and claims; litigation and other claims; and misconduct by our partners, service providers, or other counterparties. We have also been from time to time in the past, and may in the future be, the target of incomplete, inaccurate, and misleading or false statements about our company and our business that could damage our brand and deter customers from adopting our services. Any negative publicity about our industry or our company, the quality and reliability of our products and services, our risk management processes, changes to our products and services, our ability to effectively manage and resolve customer complaints, our privacy, data protection, and information security practices, litigation, regulatory activity, policy positions, and the experience of our customers with our products or services could adversely affect our reputation and the confidence in and use of our products and services. If we do not successfully maintain a strong and trusted brand, our business could be materially and adversely affected.

As our revenue has increased, our growth rate has slowed at times in the past and may slow or decline in the future, and our growth rates in each of our reporting segments may vary. Future revenue growth depends on our ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers, as well as our ability to attract and retain Cash App customers and grow their use of Cash App services.

Our rate of revenue growth has slowed at times in the past and may decline in the future, and it may slow or decline more quickly than we expect for a variety of reasons, including the risks described in this Quarterly Report on Form 10-Q. Additionally, our rate of revenue growth may vary between our two reporting segments. For example, in recent periods our Cash App segment revenue has grown at a high rate, which has varied and may continue to vary from the growth rate of our Seller segment. Our customers have no obligation to continue to use our services, and we cannot assure you that they will. We generally do not have long-term contracts with our customers, and the difficulty and costs associated with switching to a competitor may not be significant for many of the services we offer, both in the seller ecosystem and the Cash App ecosystem. Our sellers' activity with us may decrease for a variety of reasons, including sellers' level of satisfaction with our products and services, our pricing and the pricing and quality of competing products or services, the effects of global economic conditions, or reductions in the aggregate spending of our sellers' customers.

The growth of our business depends in part on existing sellers and Cash App customers expanding their use of our products and services. If we are unable to encourage broader use of our services by our sellers and Cash App customers, our growth may slow or stop, and our business may be materially and adversely affected. The growth of our business also depends on our ability to attract new sellers and Cash App customers, to encourage larger sellers to use our products and services, and to introduce successful new products and services. Growth in monthly transacting active Cash App customers and such customers' level of engagement with our products and services are essential to our success and long-term financial performance. However, the growth rate of monthly transacting active Cash App customers has fluctuated over time, and it may slow or decline in the future. A number of factors have affected and could potentially negatively affect Cash App customer growth and engagement, including our ability to introduce new products and services that are compelling to our customers, the network effects of other customers choosing whether to use Cash App, technical or other problems that affect customer experience, failure to provide sufficient customer support, fraud and scams targeting Cash App customers, and harm to our reputation and brand. Further, certain events or programs, such as government stimulus programs may correlate with periods of significant growth, but such growth may not be sustainable. Additionally, the growth rate of Cash App revenue may be distorted by the prices of bitcoin, as bitcoin revenue may increase or decrease due to the price of bitcoin and may not correlate to customer or engagement growth rates. We have invested and will continue to invest in our business in order to offer better or new features, products, and services and to adjust our product offerings to changing economic conditions, but if those features, products, services, and changes fail to be successful on the expected timeline or at all, our growth may slow or decline.

We have generated significant net losses in the past, and we intend to continue to invest substantially in our business. Thus, we may not be able to maintain profitability.

While we generated net income of $213.1 million and $375.4 million for the years ended December 31, 2020 and 2019, respectively, we generated net losses of $38.5 million for the year ended December 31, 2018. During the nine months ended September 30, 2021 and September 30, 2020, we generated net income of $239.8 million and a net loss of $80.9 million, respectively. As of September 30, 2021, we had an accumulated deficit of $48.9 million.

We intend to continue to make significant investments in our business, including with respect to our employee base; sales and marketing; development of new products, services, and features; acquisitions; infrastructure; expansion of international operations; and general administration, including legal, finance, and other compliance expenses related to our business. If the costs associated with acquiring and supporting new or larger sellers, attracting and supporting new Cash App customers, or with developing and supporting our products and services materially increase in the future, including the fees we pay to third parties to advertise our products and services, our expenses may rise significantly. In addition, increases in our seller base could cause decreased income because costs associated with new sellers are generally incurred up front, while revenue is recognized in future periods as our products and services are used by our sellers. If we are unable to generate adequate revenue growth and manage our expenses, we may incur significant losses and may not maintain profitability on a consistent basis.

From time to time, we have made and may make decisions that will have a negative effect on our short-term operating results if we believe those decisions will improve our operating results over the long term. These decisions may not be consistent with the expectations of investors and may not produce the long-term benefits that we expect, in which case our business may be materially and adversely affected.

Our efforts to expand our product portfolio and market reach, including through acquisitions, may not succeed and may reduce our revenue growth and profitability.

While we have grown the proportion of revenue from newer products and services from each of the Cash App and Seller segments and we intend to continue to broaden the scope of products and services we offer, we may not be successful in maintaining or growing our current revenue streams, or deriving any significant new revenue streams from these products and services. Failure to successfully broaden the scope of products and services that are attractive may inhibit our growth and harm our business. Furthermore, we expect to continue to expand our markets in the future, and we may have limited or no experience in such newer markets. We cannot assure you that any of our products or services will be widely accepted in any market or that they will continue to grow in revenue. Our offerings may present new and difficult technological, operational, regulatory, risks, and other challenges, and if we experience service disruptions, failures, or other issues, our business may be materially and adversely affected. For example, our Cash App products are intended to make investing in certain assets, such as bitcoin, stocks, and exchange-traded funds, more accessible. However, as a result, our customers who use these products may experience losses or other financial impacts due to, among other things, market fluctuations in the prices of bitcoin and stocks. If our customers are adversely affected by such risks, they may cease using the product or Cash App altogether and our business, brand, and reputation may be adversely affected. Further, our proposed acquisition of Afterpay would see us significantly expand into the buy now, pay later (“BNPL”) lending market and expose us to additional risks described in this Quarterly Report on Form 10-Q. Our expansion into newer markets may not lead to growth or recoup our investments in a timely manner or at all and may require significant management time and attention. If any of this were to occur, it could damage our reputation, limit our growth, and materially and adversely affect our business.

Our long-term success depends on our ability to develop products and services to address the rapidly evolving market for payments and financial services, and, if we are not able to implement successful enhancements and new features for our products and services, our business could be materially and adversely affected.

Rapid and significant technological changes continue to confront the industries in which we operate, including developments in omnichannel commerce, proximity payment devices (including contactless payments via NFC technology), digital banking, mobile financial apps, as well as developments in cryptocurrencies and in tokenization, which replaces sensitive data (e.g., payment card information) with symbols (tokens) to keep the data safe in the event that sensitive data is stolen or viewed by unauthorized third parties.

These new and evolving services and technologies may be superior to, impair, or render obsolete the products and services we currently offer or the technologies we currently use to provide them. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and we may not be successful in realizing a return on these development efforts in a timely manner or at all. Our ability to develop new products and services may be inhibited by industry-wide standards, payment card networks, existing and future laws and regulations, resistance to change from our customers, which includes our sellers and their customers, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and to adapt to technological changes and evolving industry standards. If we are unable to provide enhancements and new features for our products and services or to develop new products and services that achieve market acceptance or that keep pace with rapid technological developments and evolving industry standards, our business would be materially and adversely affected.

We often rely, not only on our own initiatives and innovations, but also on third parties, including some of our competitors, for the development of and access to new technologies and development of a robust market for these new products and technologies. Failure to accurately predict or to respond effectively to developments in our industry may significantly impair our business.

In addition, because our products and services are designed to operate with a variety of systems, infrastructures, and devices, we need to continuously modify and enhance our products and services to keep pace with changes in technologies. Moreover, our success may depend on our ability to provide products and services that are tailored to specific needs and requirements of our customers. Any failure of our products and services to continue to operate effectively with third-party infrastructures and technologies could reduce the demand for our products and services, result in dissatisfaction of our customers, and materially and adversely affect our business.

Substantial and increasingly intense competition in our industry may harm our business.

We compete in markets characterized by vigorous competition, changing technology, evolving industry standards, changing customer needs, and frequent introductions of new products and services. We expect competition to intensify in the future as existing and new competitors introduce new services or enhance existing services. For example, companies not traditionally associated with the payments industry have introduced products or services that are or may become competitive with our business. We compete against many companies to attract customers within our seller ecosystem, our Cash App ecosystem, and TIDAL, and some of these companies have greater financial resources and substantially larger bases of customers than we do, which may provide them with significant competitive advantages. These companies may devote greater resources to the development, promotion, and sale of products and services, may achieve economies of scale due to the size of their customer bases, and may more effectively introduce their own innovative products and services that adversely impact our growth. Mergers and acquisitions by, and collaborations between, these companies may lead to even larger competitors with more resources.

Certain sellers have long-standing exclusive, or nearly exclusive, relationships with our competitors to accept payment cards and other services that compete with what we offer. These relationships may make it difficult or cost-prohibitive for us to conduct material amounts of business with them. Competing services tied to established brands may engender greater confidence in the safety and efficacy of their services. If we are unable to differentiate ourselves from and successfully compete with our competitors, our business will be materially and adversely affected.

We may also face pricing pressures from competitors. Some competitors may offer lower prices by cross-subsidizing certain services that we also provide through other products they offer. Such competition may result in the need for us to alter our pricing and could reduce our gross profit. Also, sellers may demand more customized and favorable pricing from us, and competitive pressures may require us to agree to such pricing, reducing our gross profit. We currently negotiate pricing discounts and other incentive arrangements with certain large sellers to increase acceptance and usage of our products and services. If we continue this practice and if an increasing proportion of our sellers are large sellers, we may have to increase the discounts or incentives we provide, which could also reduce our gross profit.

Expanding our business globally could subject us to new challenges and risks.

We currently offer our services and products in multiple countries and plan to continue expanding our business further globally. For example, our proposed acquisition of Afterpay would see us expand our global presence. Expansion, whether in our existing or new global markets, will require additional resources and controls, and offering our services in new geographic regions often requires substantial expenditures and takes considerable time. We may not be successful enough in these new geographies to recoup our investments in a timely manner or at all. Such expansion could also subject our business to substantial risks, including:

- difficulty in attracting a sufficient number of sellers or Cash App customers;
- failure to anticipate competitive conditions and competition with service providers or other market-players that have greater experience in the local markets than we do;
- failure to conform with applicable business customs, including translation into foreign languages, cultural context, and associated expenses;
- increased costs and difficulty in protecting intellectual property and sensitive data;
- changes to the way we do business as compared with our current operations or a lack of acceptance of our products and services;
- the ability to support and integrate with local third-party service providers;
- difficulties in staffing and managing foreign operations in an environment of diverse cultures, laws, and customs, challenges caused by distance, language, and cultural differences, and the increased travel, infrastructure, and legal and compliance costs associated with global operations;
- difficulties in recruiting and retaining qualified employees and maintaining our company culture;
- difficulty in gaining acceptance from industry self-regulatory bodies;
- compliance with multiple, potentially conflicting and changing governmental laws and regulations, including with respect to payments, data privacy, data protection, and information security;
- compliance with U.S. and foreign anti-corruption, anti-bribery, and anti-money laundering laws;
- potential tariffs, sanctions, fines, or other trade restrictions;
- exchange rate risk;
- compliance with complex and potentially conflicting and changing laws of jurisdictions where we conduct business, including tax laws;
- increased exposure to public health issues such as pandemics, and related industry and governmental actions to address these issues; and
- regional economic and political instability and other geopolitical risks.

As a result of these risks, our efforts to expand our global operations may not be successful, which could limit our ability to grow our business.

Any acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions could fail to achieve strategic objectives, disrupt our ongoing operations or result in operating difficulties, liabilities and expenses, harm our business, and negatively impact our results of operations.

In pursuing our business strategy, we routinely conduct discussions and evaluate opportunities for possible acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions. We have in the past acquired or invested in, and we continue to seek to acquire or invest, in businesses, technologies, or other assets that we believe could complement or expand our business, including acquisitions of new lines of business that are adjacent to or outside of our existing ecosystems, as we did with our acquisition of a majority interest in TIDAL in April 2021. As we grow, the pace and scale of our acquisitions may increase and may include larger acquisitions than we have done historically. For example, on August 1, 2021, we entered into an agreement to acquire Afterpay. This acquisition is subject to regulatory approvals, the approvals of both our shareholders and Afterpay's shareholders, and other closing conditions. There can be no assurance that the Afterpay acquisition will be completed as expected, in a timely manner, or at all. If the acquisition of Afterpay is not completed, we will be subject to a number of risks without realizing the anticipated benefits of having completed the acquisition, including potentially the payment of a termination fee and other transaction expenses. Additionally, the market price of our securities could decline to the extent that the market price reflects an assumption that the acquisition of Afterpay will be completed, or to the extent that investors believe that the acquisition of Afterpay is material to our business strategy. The identification, evaluation, and negotiation of potential acquisition or strategic investment transactions may divert the attention of management and entail various expenses, whether or not such transactions are ultimately completed. There can be no assurance that we will be successful in identifying, negotiating, and consummating favorable transaction opportunities. In addition to transaction and opportunity costs, these transactions involve large challenges and risks, whether or not such transactions are completed, any of which could harm our business and negatively impact our results of operations, including risks that:

- the transaction may not advance our business strategy;
- the transaction may subject us to additional regulatory burdens that affect our business in potentially unanticipated and significantly negative ways;
- we may not realize a satisfactory return or increase our revenue;
- we may experience difficulty, and may not be successful in, integrating technologies, IT or business enterprise systems, culture, or management or other personnel of the acquired business;
- we may incur significant acquisition costs and transition costs, including in connection with the assumption of ongoing expenses of the acquired business;
- we may not realize the expected benefits or synergies from the transaction in the expected time period, or at all;
- we may be unable to retain key personnel;
- acquired businesses or businesses that we invest in may not have adequate controls, processes, and procedures to ensure compliance with laws and regulations, including with respect to data privacy, data protection, and data security, and our due diligence process may not identify compliance issues or other liabilities. Moreover, acquired businesses' technology stacks may add complexity, resource constraints, and legacy technological challenges that make it difficult and time consuming to achieve such adequate controls, processes, and procedures.
- we may fail to identify or assess the magnitude of certain liabilities, shortcomings, or other circumstances prior to acquiring or investing in a business, which could result in additional financial, legal, regulatory, or tax exposure and may subject us to additional controls, policies, procedures, liabilities, litigation, costs of compliance or remediation, or other adverse effects on our business, operating results, or financial condition;
- we may have difficulty entering into new market segments or new geographic territories;
- we may be unable to retain the customers, vendors, and partners of acquired businesses;
- there may be lawsuits or regulatory actions resulting from the transaction;
- there may be risks associated with undetected security weaknesses, cyberattacks, or security breaches or incidents at companies that we acquire or with which we may combine or partner;
- there may be local and foreign regulations applicable to the international activities of our business and the businesses we acquire; and
- acquisitions could result in dilutive issuances of equity securities or the incurrence of debt.

We may also choose to divest certain businesses or product lines. If we decide to sell assets or a business, we may have difficulty obtaining terms acceptable to us in a timely manner, or at all. Additionally, we may experience difficulty separating out portions of, or entire, businesses, incur potential loss of revenue or experience negative impact on margins, or we may not achieve the desired strategic and financial benefits. Such potential transactions may also delay achievement of our strategic objectives, cause us to incur additional expenses, potentially disrupt customer or employee relationships, and expose us to unanticipated or ongoing obligations and liabilities, including as a result of our indemnification obligations. Further, during the pendency of a divestiture, we may be subject to risks related to a decline in the business, loss of employees, customers, or suppliers and the risk that the transaction may not close, any of which would have a material adverse effect on the business to be divested and our retained business. If a divestiture is not completed for any reason, we may not be able to find another buyer on the same terms, and we may have incurred significant costs without the corresponding benefit.

Joint ventures and minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, regulatory, and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders, management, or other persons or entities who control them and who may have business interests, strategies, or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partners, controlling shareholders, management, or other persons or entities who control them may adversely affect the value of our investment, result in litigation or regulatory action against us, and may otherwise damage our reputation and brand.

Our recent acquisition of a majority interest in TIDAL represents a new line of business for us and subjects us to new risks and uncertainties.

We recently acquired a majority interest in TIDAL which represents a new line of business for us. We will need to rely on the existing TIDAL executive team, as our current management team has less experience in the music industry. TIDAL's business is dependent on the various rights holders. We cannot provide assurances that we or TIDAL will be able to maintain or expand arrangements with partners and other third parties on acceptable terms, if at all. Further, the music industry is highly concentrated, which means we rely on a small number of entities that may take adverse actions or take advantage of their market power to pursue arduous financial or other terms that may adversely affect us or may restrict our ability to innovate and improve our streaming service. Our streaming service also competes for listeners on the basis of the presence and visibility of our app, which is distributed via app stores operated by Apple and Google. We face significant competition for listeners from these companies, which also promote their own music and content. In addition, our competitors' streaming products may be pre-loaded or integrated into consumer electronics products or automobiles more broadly than our streaming product, which makes such competitors more visible to consumers. If we are unable to compete successfully for listeners against other media providers, then our TIDAL business may suffer. We expect that operation of the TIDAL business will require continued investment in operating expenses, headcount, and executive time and attention, none of which will ensure that we will be successful. If we fail to successfully operate and grow our TIDAL business, we will not realize the benefits anticipated when we acquired a majority interest in the business, and any such failure could result in adverse effects on our business and financial results, including substantial impairment charges.

Square Banking subjects us to risks related to bank partnerships and FDIC and other regulatory obligations.

We have partnered, on a non-exclusive basis, with Sutton Bank, an Ohio-chartered, Member FDIC bank, to offer FDIC-insured, business checking accounts for our sellers. The bank is subject to oversight both by the Federal Deposit Insurance Corporation ("FDIC") and the State of Ohio. Under the terms of our program agreement with Sutton Bank, checking accounts for our sellers are opened and maintained by Sutton Bank. We act as the service provider to, among other things, facilitate communication between our sellers and Sutton Bank. We believe our business checking account program, including applicable records maintained by us and Sutton Bank, complies with all applicable requirements for each participating seller's deposits to be covered by FDIC insurance, up to the applicable maximum deposit insurance amount. However, if the FDIC were to disagree, the FDIC may not recognize sellers' claims as covered by deposit insurance in the event Sutton Bank fails and enters receivership proceedings under the Federal Deposit Insurance Act ("FDIA"). If the FDIC were to determine that our checking account program is not covered by deposit insurance, or if Sutton Bank were to actually fail and enter receivership proceedings under the FDIA, participating sellers may withdraw their funds, which could adversely affect our brand, and our business. Due to the fact that we are a service-provider to our bank partner, we are subject to audit standards for third-party vendors in accordance with FDIC guidance and examinations by the FDIC.

Square Savings offers our sellers FDIC-insured, interest bearing savings accounts at Square Financial Services. The deposits held at Square Financial Services are insured by the FDIC up to legal limits. As a FDIC-insured institution, Square Financial Services is assessed a quarterly deposit insurance premium, calculated based on its average consolidated total assets. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay higher FDIC premiums. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability and negatively impact our business.

We intend to continue to explore other products, models, and structures for Square Banking. Some of those models or structures may require, or be deemed to require, additional data, procedures, partnerships, licenses, regulatory approvals, or capabilities that we have not yet obtained or developed. The licenses required in connection with our lending program and other activities related to the Square Banking program subject us to reporting requirements, bonding requirements, and inspection by applicable state regulatory agencies. Should we fail to expand and evolve Square Banking in a successful manner, or should these new products, models or structures, or new regulations or interpretations of existing regulations, impose requirements on us that are cumbersome or that we cannot satisfy, our business may be materially and adversely affected.

Square Loans are subject to additional risks related to availability of capital, seller payments, interest rate, deposit insurance premiums, and general macroeconomic conditions.

Square Loans, previously known as Square Capital, is our commercial lending program. Square Financial Services, as the originator of the loans provided by Square Loans in the U.S., is subject to risks in addition to those described elsewhere in this Quarterly Report on Form 10-Q. Maintaining and growing our Square Loans business is dependent on institutional third-party investors purchasing the eligible business loans originated by us. If such third parties fail to continue to purchase such business loans or reduce the amount of future loans they purchase, then we may need to reduce originations, or we would need to fund the purchase of additional business loans from our own resources. We then may have to reduce the scale of Square Financial Services, which could have a direct impact on our ability to grow. Additionally, Square Financial Services has certain customary repurchase obligations in its loan purchase and servicing agreements with such institutional third-party investors for breaches of certain eligibility representations and warranties. If third parties reduce the price they are willing to pay for these business loans or reduce the servicing fees they pay us in exchange for servicing the business loans on their behalf, then the financial performance of Square Financial Services would be harmed.

The business loans provided by Square Loans are generally unsecured obligations of our Square sellers, and they are not guaranteed or insured in any way. Adverse changes in macroeconomic conditions or the credit quality of our Square sellers could cause some Square sellers who utilize Square Loans to cease operating or to experience a decline in their payment processing volume, thereby rendering them unable to make payment on the business loan and/or extend the repayment period beyond the contractual repayment terms on the business loan. To the extent a seller breaches a contractual obligation, such as the requirement to make minimum payments or other breach, the seller would be liable for an accelerated business loan repayment, where our recourse is to the business and not to any individual or other asset. In addition, because the servicing fees we receive from third-party investors depend on the collectability of the business loans, if there is an increase in Square sellers who utilize Square Loans who are unable to make repayment of business loans, we will be unable to collect our entire servicing fee for such loans. While our exposure to loans that we sell to third parties is more limited, if the Square sellers who utilize Square Loans are unable to repay their loans, the risk of loss in our owned loan portfolio will increase and our business may be adversely affected.

In addition, adverse changes in macroeconomic conditions may lead to a decrease in the number of sellers eligible for Square Loans and may strain our ability to correctly identify such sellers or manage the risk of non-payment or fraud as servicer of the business loans. If we fail to correctly predict the likelihood of timely repayment or correctly price such business loans, our business may be materially and adversely affected.

Square Financial Services' profitability depends, in part, on its net interest income. Net interest income is the difference between interest income earned on interest-bearing assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Changes in interest rates and monetary policy can impact the demand for new loans, the credit profile of our borrowers, the yields earned on loans and securities, and the rates paid on deposits and borrowings. The impact of any sudden and substantial move in interest rates and/or increased competition may have an adverse effect on our business, financial condition and results of operations, as our net interest income may be adversely affected.

Operational Risks

We, our sellers, our partners, and others who use our services obtain and process a large amount of sensitive data. Any real or perceived improper or unauthorized use of, disclosure of, or access to such data could harm our reputation as a trusted brand, as well as have a material and adverse effect on our business.

We, our sellers, and our partners, including third-party vendors and data centers that we use, obtain and process large amounts of sensitive data, including data related to our customers, our sellers' customers, and their transactions. We face risks, including to our reputation as a trusted brand, in the handling and protection of this data. These risks will increase as our business continues to expand to include new products, subsidiaries, and technologies, and as we and our third-party vendors rely on an increasingly distributed workforce. Our operations involve the storage and transmission of sensitive information of individuals and businesses using our services, including their names, addresses, social security/tax ID numbers (or foreign equivalents), government IDs, payment card numbers and expiration dates, bank account information, loans they have applied for or obtained, and data regarding the performance of our sellers' businesses. Additionally, certain of our products and services are subject to the Health Insurance Portability and Accountability Act of 1996 (and the rules and regulations thereunder, as amended, including with respect to the HITECH Act) (HIPAA), and therefore we are required to take measures to safeguard protected health information of our health care entity-sellers' customers when using those products. Our services also provide third-party developers the opportunity to provide applications to our sellers in the Square and Weebly app marketplaces. Sellers who choose to use such applications can grant permission allowing the applications to access content created or held by sellers in their Square or Weebly account. Should our internal or third-party developers experience or cause a breach or a technological bug, that could lead to a compromise of the content of data held by such sellers, including personal data.

Our products and services operate in conjunction with, and we are dependent upon, third-party products and components across a broad ecosystem. There have been and may continue to be significant attacks on certain third-party providers, and we cannot guarantee that our or our third-party developers or vendors' systems and networks have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our products and services. If there is a security vulnerability, error, or other bug in one of these third-party products or components and if there is a security exploit targeting them, we could face increased costs, claims and liability, proceedings and litigation, reduced revenue, or harm to our reputation or competitive position. The natural sunsetting of third-party products and operating systems that we use requires our personnel to reallocate time and attention to migration and updates, during which period potential security vulnerabilities could be exploited.

More generally, if our privacy, data protection, or data security measures or those of third party developers or vendors are inadequate or are breached or otherwise compromised, and, as a result, there is improper disclosure of or someone obtains unauthorized access to or exfiltrates funds, bitcoin, investment or other assets, or other sensitive information on our systems or our partners' systems, or if we, our third-party developers or vendors suffer a ransomware or advanced persistent threat attack, or if any of the foregoing is reported or perceived to have occurred, our reputation and business could be damaged. If the sensitive information or assets are lost or improperly accessed, misused, disclosed, destroyed, or altered or threatened to be improperly accessed, misused, disclosed, destroyed, or altered, we could incur significant financial losses and costs and liability associated with remediation and the implementation of additional security measures and be subject to claims, litigation, regulatory scrutiny, and investigations.

Under payment card rules and our contracts with our card processors and other counterparties, if there is a breach of payment card information that we store or that is stored by our sellers or other third parties with which we do business, we could be liable to the payment card issuing banks for certain of their costs and expenses. Additionally, if our own confidential business information were improperly disclosed, our business could be materially and adversely affected. A core aspect of our business is the reliability and security of our payments platforms. Any perceived or actual breach of security or other type of security incident, regardless of how it occurs or the extent or nature of the breach or incident, could have a significant impact on our reputation as a trusted brand, cause us to lose existing sellers or other customers, prevent us from obtaining new sellers and other customers, require us to expend significant funds to remedy problems caused by breaches and incidents and to implement measures in an effort to prevent further breaches and incidents, and expose us to legal risk and potential liability including those resulting from governmental or regulatory investigations, class action litigation, and costs associated with remediation, such as fraud monitoring and forensics. Any actual or perceived security breach or incident at a company providing services to us or our customers could have similar effects. Further, any actual or perceived security breach or incident with respect to the bitcoin and blockchain ledger, regardless of whether such breach directly affects our products and services, could have negative reputational effects and harm customer trust in us and our products and services.

While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by such attacks. We cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, premiums, or deductibles could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Our products and services may not function as intended due to errors in our software, hardware, and systems, product defects, or due to security breaches or incidents or human error in administering these systems, which could materially and adversely affect our business.

Our software, hardware, systems, and processes may contain undetected errors or vulnerabilities that could have a material adverse effect on our business, particularly to the extent such errors or vulnerabilities are not detected and remedied quickly. We have from time to time found defects in our customer-facing software and hardware, internal systems, and technical integrations with third-party systems, and new errors or vulnerabilities may be introduced in the future. If there are such errors or defects in our software, hardware, or systems, we may face negative publicity, government investigations, and litigation. Additionally, we rely on a limited number of component and product suppliers located outside of the U.S. to manufacture our products. As a result, our direct control over production and distribution is limited and it is uncertain what effect such diminished control will have on the quality of our products. If there are defects in the manufacture of our hardware products, we may face similar negative publicity, investigations, and litigation, and we may not be fully compensated by our suppliers for any financial or other liability that we suffer as a result. As our hardware and software services continue to increase in size and complexity, and as we integrate new, acquired subsidiaries with different technology stacks and practices, these risks may correspondingly increase as well.

In addition, we provide frequent incremental releases of product and service updates and functional enhancements, which increase the possibility of errors. The products and services we provide are designed to process complex transactions and deliver reports and other information related to those transactions, all at high volumes and processing speeds. Any errors, data leaks, security breaches or incidents, disruptions in services, or other performance problems with our products or services caused by external or internal actors could hurt our reputation and damage our customers' businesses. Software and system errors, or human error, could delay or inhibit settlement of payments, result in oversettlement, cause reporting errors, or prevent us from collecting transaction-based fees, or negatively impact our ability to serve our customers, all of which have occurred in the past. Similarly, security breaches or incidents such as cyber-attacks or identity theft could disrupt the proper functioning of our software products or services, cause errors, allow loss or unavailability of, unauthorized access to, or disclosure of, proprietary, confidential or otherwise sensitive information of ours or our customers, and other destructive outcomes. Moreover, security breaches or incidents or errors in our hardware or software design or manufacture could cause product safety issues typical of consumer electronics devices. Any of the foregoing issues could lead to product recalls and inventory shortages, result in costly and time-consuming efforts to redesign and redistribute our products, give rise to regulatory inquiries and investigations, and result in lawsuits and other liabilities and losses, which could have a material and adverse effect on our business.

Additionally, electronic payment, hardware, and software products and services, including ours, have been, and could continue to be in the future, specifically targeted and penetrated or disrupted by hackers and other malicious actors. Because the techniques used to obtain unauthorized access to data, products, and services and to disable, degrade, or sabotage them change frequently and may be difficult to detect or remediate for long periods of time, we and our customers may be unable to anticipate these techniques or implement adequate preventative measures to stop them. If we or our sellers or other customers are unable to anticipate or prevent these attacks, our sellers' or other customers may be harmed, our reputation could be damaged, and we could incur significant liability.

Systems failures, interruptions, delays in service, catastrophic events, and resulting interruptions in the availability of our products or services, or those of our sellers, could harm our business and our brand, and subject us to substantial liability.

Our systems and those of our third-party vendors, including data center facilities, may experience service interruptions, outages, cyber-attacks and security breaches and incidents, human error, earthquakes, hurricanes, floods, pandemics, fires, other natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks and other geopolitical unrest, computer viruses, ransomware, and other malicious software, changes in social, political, or regulatory conditions or in laws and policies, or other changes or events. Our systems and facilities are also subject to break-ins, sabotage, and acts of vandalism. Some of our systems are not fully redundant, and our disaster-recovery planning is not sufficient for all eventualities. In addition, as a provider of payments solutions and other financial services, we are subject to increased scrutiny by regulators that may require specific business continuity and disaster recovery plans and more rigorous testing of such plans. This increased scrutiny may be costly and time-consuming and may divert our resources from other business priorities.

We have experienced and will likely continue to experience denial-of-service and other cyber-attacks, system failures, outages, security incidents, and other events or conditions that interrupt the availability, data integrity, or reduce the speed or functionality of our products and services. These events have resulted and likely will result in loss of revenue. In addition, they could result in significant expense to repair or replace damaged equipment and remedy resultant data loss or corruption. The risk of cybersecurity incidents is increasing as we experience an increase in electronic payments, e-commerce, and other online activity, and we cannot provide assurances that our preventative efforts will be successful. A prolonged interruption in the availability or reduction in the speed or other functionality of our products or services could materially harm our reputation and business. Frequent or persistent interruptions in our products and services could cause customers to believe that our products and services are unreliable, leading them to switch to our competitors or to avoid our products and services, and could permanently harm our reputation and business. Moreover, to the extent that any system failure or similar event results in damages to customers or contractual counterparties, these customers and contractual counterparties could seek compensation from us for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address.

A significant natural or man-made disaster could have a material and adverse impact on our business. Our headquarters and certain of our data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our headquarters or data centers could result in lengthy interruptions in our services or could result in related liabilities. We do not maintain insurance sufficient to compensate us for the potentially significant losses that could result from disruptions to our services.

Significant natural or other disasters, including pandemics, could also have a material and adverse impact on our sellers or other customers, which, in the aggregate, could in turn adversely affect our results of operations.

The loss or destruction of a private key required to access our bitcoin may be irreversible. If we are unable to access our private keys or if we experience a hack or other data loss relating to the bitcoins we hold on behalf of ourselves and our customers, we and our customers may be unable to access such bitcoins and it could harm customer trust in us and our products.

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoins are held. While the bitcoin and blockchain ledger require a public key relating to a digital wallet to be published when used in a transaction, private keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoins held in such digital wallet. To the extent any of our private keys are lost, destroyed, or otherwise compromised and no backup of such private key is accessible, we will be unable to access the bitcoins held in the related digital wallet. Additionally, we use a third party custodian to store a portion of our bitcoins in an offline and air-gapped cold storage. Any inappropriate access or theft of bitcoins held by our custodian, or the custodian's failure to maintain effective controls over the custody and other settlement services provided to us, could materially and adversely affect us. We cannot provide assurance that the digital wallets used to store our and our customers' bitcoins will not be hacked or compromised. The bitcoin and blockchain ledger, as well as other cryptocurrencies and blockchain technologies, have been, and may in the future be, subject to security breaches or incidents, hacking, or other malicious activities. Any loss of private keys relating to, or hack or other compromise of, digital wallets used to store our customers' bitcoins could adversely affect our customers' ability to access or sell their bitcoins and could harm customer trust in us and our products, require us to expend significant funds for remediation, and expose us to litigation and other potential liability. Additionally, any loss of private keys relating to, or hack or other compromise of, digital wallets used by third parties to store bitcoins or other cryptocurrencies could have negative reputational effects on us and harm customer trust in us and our products. As the number of customers who use our bitcoin product has increased and the value of bitcoins we hold on behalf of such customers has grown significantly, the risks and consequences of such adverse events have increased and could materially and adversely affect our business.

Our risk management efforts may not be effective, which could expose us to losses and liability and otherwise harm our business.

We offer payments and other products and services to a large number of customers. We have programs to vet and monitor these customers and the transactions we process for them as part of our risk management efforts, but such programs require continuous improvement and may not be effective in detecting and preventing fraud and illegitimate transactions. When our payments services are used to process illegitimate transactions, and we settle those funds to customers and are unable to recover them, we suffer losses and liability. As a greater number of larger sellers use our services, our exposure to material risk losses from a single seller, or from a small number of sellers, will increase. Illegitimate transactions can also expose us to governmental and regulatory enforcement actions and potentially prevent us from satisfying our contractual obligations to our third-party partners, which may cause us to be in breach of our obligations. The highly automated nature of, and liquidity offered by, our payments and peer-to-peer services make us and our customers a target for illegal or improper uses, including scams and fraud directed at Cash App customers, fraudulent or illegal sales of goods or services, money laundering, and terrorist financing. Identity thieves and those committing fraud using stolen or fabricated credit card, debit card, or bank account numbers, or other deceptive or malicious practices, potentially can steal significant amounts of money from businesses like ours or from our customers or third parties. Our risk management policies, procedures, techniques, and processes may not be sufficient to identify all of the risks to which we are exposed, to enable us to prevent or mitigate the risks we have identified, or to identify additional risks to which we may become subject in the future. Our current business, changes due to COVID-19 and the related economic impact, and anticipated domestic and international growth will continue to place significant demands on our risk management and compliance efforts, and we will need to continue developing and improving our existing risk management infrastructure, techniques, and processes. In addition, when we introduce new services, such as Square Banking, expand existing services, including online payment acceptance, focus on new business areas, including consumer financing and loans, or begin to operate in markets where we have a limited history of fraud loss, we may be less able to forecast and carry appropriate reserves on our books for those losses. Additionally, we recently launched Cash App Teens, making certain Cash App functions, such as Cash Card, limited peer-to-peer payments, and direct deposits available to teenagers between the ages of 13 through 17 with the authorization of a parent or guardian. The risks and the potential harm to our reputation are magnified in instances of fraud or unauthorized or inappropriate transactions involving minors.

While we maintain a program of insurance coverage for various types of liabilities, we may self-insure against certain business risks and expenses where we believe we can adequately self-insure against the anticipated exposure and risk or where insurance is either not deemed cost-effective or unavailable.

We are currently, and will continue to be, exposed to risks associated with chargebacks and refunds in connection with payment card fraud or relating to the goods or services provided by our sellers. In the event that a billing dispute between a cardholder and a seller is not resolved in favor of the seller, including in situations where the seller engaged in fraud, the transaction is typically “charged back” to the seller and the purchase price is credited or otherwise refunded to the cardholder. The risk of chargebacks is typically greater with our sellers that promise future delivery of goods and services. Moreover, chargebacks typically increase during economic downturns due to sellers becoming insolvent or bankrupt or otherwise unable to fulfill their commitments for goods or services. Additionally, the recent global supply chain disruptions and shortages related to the COVID-19 pandemic have negatively affected sellers' ability to deliver goods and services on time or at all, which increases the risk of chargebacks. If we are unable to collect chargebacks or refunds from the seller’s account, or if the seller refuses to or is unable to reimburse us for chargebacks or refunds due to closure, bankruptcy, or other reasons, we, as the merchant of record, may bear the loss for the amounts paid to the cardholder. We collect and hold reserves for a limited number of sellers whose businesses are deemed higher risk in order to help cover potential losses from chargebacks and refunds, but this practice is limited and there can be no assurances that we will be successful in mitigating such losses. Our financial results would be adversely affected to the extent sellers do not fully reimburse us for the related chargebacks and refunds. Moreover, since October 2015, businesses that cannot process EMV chip cards are held financially responsible for certain fraudulent transactions conducted using chip-enabled cards. Not all of the readers we offer to merchants are EMV-compliant. If we are unable to maintain our losses from chargebacks at acceptable levels, the payment card networks could fine us, increase our transaction-based fees, or terminate our ability to process payment cards. Any increase in our transaction-based fees could damage our business, and if we were unable to accept payment cards, our business would be materially and adversely affected. If any of our risk management policies and processes, including self-insurance or holding seller reserves, are ineffective, we may suffer large financial losses, we may be subject to civil and criminal liability, and our business may be materially and adversely affected.

We are dependent on payment card networks and acquiring processors, and any changes to their rules or practices could harm our business.

Our business depends on our ability to accept credit and debit cards, and this ability is provided by the payment card networks, including Visa, MasterCard, American Express, and Discover. In a majority of these cases, we do not directly access the payment card networks that enable our acceptance of payment cards. As a result, we must rely on banks and acquiring processors to process transactions on our behalf. Our acquiring processor agreements have terms ranging from two to six years. Our three largest such agreements expire between the first quarter of 2022 and the fourth quarter of 2025. These banks and acquiring processors may fail or refuse to process transactions adequately, may breach their agreements with us, or may refuse to renegotiate or renew these agreements on terms that are favorable or commercially reasonable. They might also take actions that degrade the functionality of our services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services. If we are unsuccessful in establishing, renegotiating, or maintaining mutually beneficial relationships with these payment card networks, banks, and acquiring processors, our business may be harmed.

The payment card networks and our acquiring processors require us to comply with payment card network operating rules, including special operating rules that apply to us as a “payment facilitator” providing payment processing services to merchants. The payment card networks set these network rules and have discretion to interpret the rules and change them at any time. Changes to these network rules or how they are interpreted could have a significant impact on our business and financial results. For example, changes in the payment card network rules regarding chargebacks may affect our ability to dispute chargebacks and the amount of losses we incur from chargebacks. Any changes to or interpretations of the network rules that are inconsistent with the way we or our acquiring processors currently operate may require us to make changes to our business that could be costly or difficult to implement. If we fail to make such changes or otherwise resolve the issue with the payment card networks, the networks could fine us or prohibit us from processing payment cards. In addition, violations of the network rules or any failure to maintain good relationships with the payment card networks could impact our ability to receive incentives from them, could increase our costs, or could otherwise harm our business. If we were unable to accept payment cards or were limited in our ability to do so, our business would be materially and adversely affected.

We are required to pay interchange and assessment fees, processing fees, and bank settlement fees to third-party payment processors and financial institutions. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction processed using their networks. In some cases, we have negotiated favorable pricing with acquiring processors and networks that are contingent on certain business commitments and other conditions. If we fail to meet such conditions, the fees we are charged will rise. Moreover, our acquiring processors and payment card networks may refuse to renew our agreements with them on terms that are favorable, commercially reasonable, or at all. Interchange fees or assessments are also subject to change from time to time due to government regulation. Because we generally charge our sellers a standard rate for our managed payments services, rather than passing through interchange fees and assessments to our sellers directly, any increase or decrease in interchange fees or assessments or in the fees we pay to our acquiring processors could make our pricing less competitive, lead us to change our pricing model, or adversely affect our margins, all of which could materially harm our business and financial results. Likewise, we have negotiated favorable pricing for the processing fees we pay to the payment card networks for peer-to-peer transactions on our Cash App. As such, an increase in interchange fees or assessments could raise our costs for such transactions, which could materially harm our business and financial results.

We could be, and in the past have been, subject to penalties from payment card networks if we fail to detect that sellers are engaging in activities that are illegal, contrary to the payment card network operating rules, or considered “high risk.” We must either prevent high-risk sellers from using our products and services or register such high-risk sellers with the payment card networks and conduct additional monitoring with respect to such high-risk sellers. Any such penalties could become material and could result in termination of our ability to accept payment cards or could require changes in our process for registering new sellers. This could materially and adversely affect our business.

We rely on third parties and their systems for a variety of services, including the processing of transaction data and settlement of funds to us and our customers, and these third parties’ failure to perform these services adequately could materially and adversely affect our business.

To provide our products and services, we rely on third parties that we do not control, such as the payment card networks, our acquiring and issuing processors, the payment card issuers, a carrying broker, various financial institution partners, systems like the Federal Reserve Automated Clearing House, and other partners. We rely on these third parties for a variety of services, including the transmission of transaction data, processing of chargebacks and refunds, settlement of funds to our sellers, certain brokerage services, storing customer funds, authorizing payment transactions under our various card programs, originating loans to customers, and the provision of information and other elements of our services. For example, we currently rely on three acquiring processors for each of the United States, Canada, and Japan and two for each of Australia and the United Kingdom. While we believe there are other acquiring processors that could meet our needs, adding or transitioning to new providers may significantly disrupt our business and increase our costs. In the event these third parties fail to provide these services adequately, including as a result of financial difficulty or insolvency, errors in their systems, outages or events beyond their control, or refuse to provide these services on terms acceptable to us or at all, and we are not able to find suitable alternatives, our business may be materially and adversely affected. We have in the past experienced outages with third parties we have worked with, which has affected the ability to process payments for cards issued under our own brands.

We depend on key management, as well as our experienced and capable employees, and any failure to attract, motivate, and retain our employees could harm our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our executives and other key employees. If we lose the services of any member of management or any key personnel, we may not be able to locate a suitable or qualified replacement, and we may incur additional expenses to recruit and train a replacement, which could severely disrupt our business and growth. Jack Dorsey, our co-founder, President, and Chief Executive Officer, also serves as Chief Executive Officer of Twitter, Inc. This may at times adversely affect his ability to devote time, attention, and effort to Square.

To maintain and grow our business, we will need to identify, attract, hire, develop, motivate, and retain highly skilled employees. This requires significant time, expense, and attention. In addition, from time to time, there may be changes in our management team that may be disruptive to our business. If our management team, including any new hires that we make, fails to work together effectively and to execute our plans and strategies on a timely basis, our business could be harmed. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area where our headquarters are located. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. Additionally, potential changes in U.S. immigration policy may make it difficult to renew or obtain visas for any highly skilled personnel that we have hired or are actively recruiting. Furthermore, our international expansion and our business in general may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes or projects involving personnel who are not citizens of the country where the work is to be performed. If we are not able to add and retain employees effectively, our ability to achieve our strategic objectives will be adversely affected, and our business and growth prospects will be harmed.

If we do not continue to improve our operational, financial, and other internal controls and systems to manage growth effectively, our business could be harmed.

Our current business and anticipated growth, as well as our entry into new lines of business and our acquisitions, will continue to place significant demands on our management and other resources. In order to manage our growth effectively, we must continue to strengthen our existing infrastructure and operational procedures, enhance our internal controls and reporting systems, and ensure we timely and accurately address issues as they arise. In particular, our continued growth will increase the challenges involved in:

- improving existing and developing new internal administrative infrastructure, particularly our operational, financial, communications, and other internal systems and procedures;
- successfully expanding and implementing internal controls as they relate to our new lines of business and any acquired businesses
- installing enhanced management information and control systems; and
- preserving our core values, strategies, and goals and effectively communicating these to our employees worldwide.

If we are not successful in developing and implementing the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

These efforts may require substantial financial expenditures, commitments of resources, developments of our processes, and other investments and innovations. As we grow, we must balance the need for additional controls and systems with the ability to efficiently develop and launch new features for our products and services. However, it is likely that as we grow, we will not be able to launch new features, or respond to customer or market demands as quickly as a smaller, more efficient organization. If we do not successfully manage our growth, our business will suffer.

Our services must integrate with a variety of operating systems, and the hardware that enables merchants to accept payment cards must interoperate with third-party mobile devices utilizing those operating systems. If we are unable to ensure that our services or hardware interoperate with such operating systems and devices, our business may be materially and adversely affected.

We are dependent on the ability of our products and services to integrate with a variety of operating systems, as well as web browsers, that we do not control. Any changes in these systems that degrade the functionality of our products and services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services, could materially and adversely affect usage of our products and services. In addition, we rely on app marketplaces, such as the Apple App Store and Google Play, to drive downloads of our mobile apps. Apple, Google, or other operators of app marketplaces regularly make changes to their marketplaces, and those changes may make access to our products and services more difficult. In the event that it is difficult for our customers to access and use our products and services, our business may be materially and adversely affected. Furthermore, Apple, Google, or other operators of app marketplaces regularly provide software updates, and such software updates may not operate effectively with our products and services, which may reduce the demand for our products and services, result in dissatisfaction by our customers, and may materially and adversely affect our business.

In addition, our hardware interoperates with wired and wireless interfaces to mobile devices developed by third parties. For example, the current versions of our magstripe reader plug into an audio jack or a Lightning connector. The use of these connection types could change, and such changes and other potential changes in the design of future mobile devices could limit the interoperability of our hardware and software with such devices and require modifications to our hardware or software. If we are unable to ensure that our hardware and software continue to interoperate effectively with such devices, if doing so is costly, or if existing merchants decide not to utilize additional parts necessary for interoperability, our business may be materially and adversely affected.

Many of our key components are procured from a single or limited number of suppliers. Thus, we are at risk of shortage, price increases, tariffs, changes, delay, or discontinuation of key components, which could disrupt and materially and adversely affect our business.

Many of the key components used to manufacture our products, such as the custom parts of our magstripe reader come from limited or single sources of supply. In addition, in some cases, we rely only on one manufacturer to fabricate, test, and assemble our products. For example, a single manufacturer assembles our magstripe reader and our contactless and chip reader, as well as manufactures those products' plastic parts with custom tools that we own but that they maintain on their premises. The term of the agreement with that manufacturer automatically renews for consecutive one-year periods unless either party provides notice of non-renewal. In general, our contract manufacturers fabricate or procure components on our behalf, subject to certain approved procedures or supplier lists, and we do not have firm commitments from all of these manufacturers to provide all components, or to provide them in quantities and on timelines that we may require. For example, pursuant to a development and supply agreement, a component supplier provides design, development, customization, and related services for components of the magnetic stripe-reading element in some of our products. The term of the agreement extends through March 2022 and then renews for consecutive one-year periods unless either party provides notice of non-renewal. Similarly, a component provider develops certain application-specific integrated circuits for our products pursuant to our designs and specifications. The term of our agreement with this provider renews for successive two-year terms unless either party provides notice of non-renewal.

Due to our reliance on the components or products produced by suppliers such as these, we are subject to the risk of shortages and long lead times or other disruptions in the supply of certain components or products. Our ongoing efforts to identify alternative manufacturers for the assembly of our products and for many of the single-sourced components used in our products may not be successful. In the case of off-the-shelf components, we are subject to the risk that our suppliers may discontinue or modify them, or that the components may cease to be available on commercially reasonable terms, or at all. We have in the past experienced, and may in the future experience, component shortages or delays or other problems in product assembly, and the availability of these components or products may be difficult to predict. For example, our manufacturers may experience temporary or permanent disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, the occurrence of a contagious disease or illness, component or material shortages, cost increases, acquisitions, insolvency, bankruptcy, business shutdowns, trade restrictions, changes in legal or regulatory requirements, or other similar problems. The current global supply chain disruptions and shortages, in particular with respect to integrated circuits, have affected our supply chain and resulted in low levels of inventory for some of our hardware products. We therefore may be unable to timely fulfill orders for some hardware products. These hardware shortages could negatively affect our ability to serve and acquire sellers, and if such shortages continue for an extended period of time, could materially and adversely impact our financial results.

Additionally, various sources of supply-chain risk, including strikes or shutdowns at delivery ports or loss of or damage to our products while they are in transit or storage, intellectual property theft, losses due to tampering, third-party vendor issues with quality or sourcing control, failure by our suppliers to comply with applicable laws and regulation, potential tariffs or other trade restrictions, or other similar problems could limit or delay the supply of our products or harm our reputation. In the event of a shortage or supply interruption from suppliers of these components, such as the current global shortage of integrated circuits, we may not be able to develop alternate sources quickly, cost-effectively, or at all. Any interruption or delay in manufacturing, component supply, any increases in component costs, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to provide our products to sellers on a timely basis or impact our cost of goods sold. This could harm our relationships with our sellers, prevent us from acquiring new sellers, and materially and adversely affect our business.

In September of 2018, the United States imposed tariffs on certain imports from China, including on some of our hardware devices manufactured in China. The tariffs on these products were initially set at 10%, but were increased to 25% in May 2019. On September 1, 2019, the United States imposed new tariffs at 15% on additional imports from China, including on our remaining hardware products manufactured there, but rolled back these new tariffs to 7.5% effective February 14, 2020. The tariffs negatively affect the gross margin on the impacted products, which only partially has been offset by adjustments to the prices of some of the affected products. Any future tariffs and actions related to items imported from China or elsewhere could also negatively impact our gross margin on the impacted products, and increases in our pricing as a result of tariffs would reduce the competitiveness of our products if our competitors do not make similar pricing adjustments. The impact of any increased or new tariffs or other trade restrictions could have a material and adverse effect on our business, financial condition, and results of future operations.

Our business could be harmed if we are unable to accurately forecast demand for our products and to adequately manage our product inventory.

We invest broadly in our business, and such investments are driven by our expectations of the future success of a product. For example, our products such as the Square Reader often require investments with long lead times. An inability to correctly forecast the success of a particular product could harm our business. We must forecast inventory needs and expenses and place orders sufficiently in advance with our third-party suppliers and contract manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in demand for our products or for our competitors' products, unanticipated changes in general market or economic conditions, and business closures and other actions taken to combat COVID-19.

If we underestimate demand for a particular product, our contract manufacturers and suppliers may not be able to deliver sufficient quantities of that product to meet our requirements, and we may experience a shortage of that product available for sale or distribution. If we overestimate demand for a particular product, we may experience excess inventory levels for that product and the excess inventory may become obsolete or out-of-date. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at further discounted prices, which could negatively impact our gross profit and our business.

Our TIDAL services depend upon maintaining complex licenses with copyright owners, and it is difficult to estimate the amount payable under our license agreements.

Under TIDAL's license agreements and relevant statutes, we must pay all required royalties to record labels, music publishers, and other copyright owners in order to stream, distribute, and display content. The determination of the amount and timing of such payments is complex and subject to a number of variables, including the type of content accessed, the country in which it is accessed, the service tier such content is streamed on, the identity of the license holder to whom royalties are owed, the current size of our subscriber base, the applicability of any most favored nations provisions, and any applicable fees, waivers, and discounts, among other variables.

We also expect to implement new internal controls related to the TIDAL business in addition to the existing controls TIDAL currently maintains. If we fail to implement and maintain effective controls relating to rights holder liabilities, we may underpay/under-accrue or overpay/over-accrue the royalty amounts payable to record labels, music publishers, and other copyright owners. Underpayment could result in (i) litigation or other disputes with record labels, music publishers, and other copyright owners, (ii) the unexpected payment of additional royalties in material amounts, and (iii) damage to our business relationships with record labels, music publishers, other copyright owners, and artists and/or artist groups on which our streaming service depends. If we overpay royalties, we may be unable to reclaim such overpayments, and our revenue will suffer. Failure to accurately pay our royalties may adversely affect our business, operating results, and financial condition.

Our TIDAL business is at risk of artificial manipulation of stream counts and failure to effectively manage and remediate such fraudulent streams could have an adverse impact on TIDAL's business, operating results, and financial condition.

TIDAL, like other digital streaming platforms, has in the past been, and continues to be, impacted by attempts to artificially manipulate stream counts. Such attempts may, for example, be designed to generate revenue for rights holders or to influence placement of content on TIDAL or industry music charts. Potentially fraudulent streaming may involve creating non-bona fide accounts for subscribers or artists or using compromised passwords to access legitimate subscriber accounts. We use a combination of algorithms and manual review by employees to detect fraudulent streaming and aim to remove fake accounts created for the above purposes and filter them out from our metrics on an ongoing basis, as well as to require account owners to reset passwords that we suspect have been compromised. However, we may not be successful in detecting, removing, and addressing all fraudulent streaming and any related accounts. If we fail to successfully detect, remove, and address fraudulent streaming and associated accounts, it may result in the manipulation of our data, including the key performance indicators, which underlie, among other things, our contractual obligations with rights holders (which could expose us to the risk of litigation), as well as harm our relationships with rights holders. In addition, once we detect, correct, and disclose fraudulent streaming and associated accounts, this may result in the removal of certain accounts and/or a reduction in account activity, which could have an adverse impact on our business, operating results, and financial condition.

Economic, Financial, and Tax Risks

A deterioration of general macroeconomic conditions could materially and adversely affect our business and financial results.

Our performance is subject to economic conditions and their impact on levels of spending by businesses and individuals. Most of the sellers that use our services are small businesses, many of which are in the early stages of their development, and these businesses are often disproportionately adversely affected by economic downturns and may fail at a higher rate than larger or more established businesses. In fact, small businesses have been, and continue to be, disproportionately affected by the COVID-19 pandemic and the related measures taken by governments and private industry to protect the public health such as stay-at-home orders. Some businesses are experiencing reduced sales and are processing fewer payments with us. If they cease to operate, they will likely stop using our products and services altogether. Small businesses frequently have limited budgets and limited access to capital, and they may choose to allocate their spending to items other than our financial or marketing services, especially in times of economic uncertainty or in recessions. In addition, if more of our sellers cease to operate, this may have an adverse impact not only on the growth of our payments services but also on our transaction and advance loss rates, and the success of our other services. For example, if sellers processing payments with us receive chargebacks after they cease to operate, we may incur additional losses. Additionally, the growth in the number of sellers qualifying for participation in the Square Loans program may slow, or business loans may be paid more slowly, or not at all. In addition, as we expand our business to offer consumer financing products, those customers may also be disproportionately adversely affected by economic downturns.

Further, our suppliers, distributors, and other third party partners may suffer their own financial and economic challenges. Such suppliers and third parties may demand pricing accommodations, delay payment, or become insolvent, which could harm our ability to meet end customer demands or collect revenue or otherwise could harm our business. Furthermore, our investment portfolio, which includes U.S. government and corporate securities, is subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by certain events that affect the global financial markets. If global credit and equity markets decline for extended periods, or if there is a downgrade of the securities within our portfolio, our investment portfolio may be adversely affected and we could determine that our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results. Thus, if general macroeconomic conditions deteriorate, our business and financial results could be materially and adversely affected.

The COVID-19 pandemic and health measures taken by governments and private industry in response to the pandemic, including stay-at-home orders, restrictions on business operations, and travel restrictions, have had significant negative effects on the economy. Continued uncertainty about the pandemic and potential relief measures may have a long-term adverse effect on the economy, our sellers, customers, suppliers, and our business. For example, the pandemic has contributed to significant supply chain disruption which has adversely affected our sellers and the economy in general and such disruption is expected to continue. In addition, we are currently subletting some of our office space. An economic downturn or our work-from-home practices may cause us to need less office space than we are contractually committed to leasing and prevent us from finding subtenants for such unused office space, causing us to pay for unused office space.

We are also monitoring developments related to the decision by the United Kingdom to leave the European Union. Brexit could have significant implications for our business and could lead to economic and legal uncertainty and increasingly divergent laws, regulations, and licensing requirements. Any of these effects of Brexit, among others, could adversely affect our operations and financial results.

We may have exposure to greater-than-anticipated tax liabilities, which may materially and adversely affect our business.

We are subject to income taxes and non-income taxes in the United States and other countries in which we transact or conduct business, and such laws and rates vary by jurisdiction. We are subject to review and audit by U.S. federal, state, local, and foreign tax authorities. Such tax authorities may disagree with tax positions we take, and if any such tax authority were to successfully challenge any such position, our financial results and operations could be materially and adversely affected. In addition, we currently are, and expect to continue to be, subject to numerous federal, state, and foreign tax audits relating to income, transfer pricing, sales & use, VAT, and other tax liabilities. While we have established reserves based on assumptions and estimates that we believe are reasonably sufficient to cover such eventualities, any adverse outcome of such a review or audit could have an adverse impact on our financial position and results of operations if the reserves prove to be insufficient.

Our tax liability could be adversely affected by changes in tax laws, rates, regulations, and administrative practices. For example, various levels of government and international organizations, such as in the United States, the Organization for

Economic Co-operation and Development ("OECD"), and the European Union ("EU"), have increasingly focused on future tax reform and any result from this development may create changes to long-standing tax principles, which could adversely affect our effective tax rate. On October 8, 2021, the OECD announced an international agreement with more than 130 countries to implement a new global minimum effective corporate tax rate of 15% for large multinational companies starting in 2023. Additionally, under the agreement, new rules have been introduced that will result in the reallocation of certain profits from large multinational companies to market jurisdictions. Although the implementation details are being developed and the enactment of these changes have not yet taken effect, we will be monitoring the developments and tax implications of these changes, which may have adverse tax consequences for us.

Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value, and use our intellectual property and the scope of our international operations. The tax authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements. Additionally, tax authorities at the international, federal, state, and local levels are currently reviewing the appropriate tax treatment of companies engaged in internet commerce and financial technology and attempting to broaden the classification and definitions of activities subject to taxation. For example, various states may attempt to broaden the definition of internet hosting, data processing, telecommunications, and other taxable services to capture additional types of activities. These developing changes could affect our financial position and results of operations. In particular, due to the global nature of the Internet, it is possible that tax authorities at the international, federal, state, and local levels may attempt to regulate our transactions or levy new or revised sales & use taxes, VAT, digital services taxes, digital advertising taxes, income taxes, or other taxes relating to our activities in the internet commerce and financial technology space. New or revised taxes, in particular, sales & use taxes, VAT, and similar taxes, including digital advertising taxes and digital service taxes, would likely increase the cost of doing business. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Proposed or enacted laws regarding tax compliance obligations could require us to make changes to our infrastructure or increase our compliance obligation. Any of these events could have an adverse effect on our business and results of operations. Moreover, an increasing number of states, and certain foreign jurisdictions, have considered or adopted laws or administrative practices that attempt to impose obligations for online marketplaces, payment service providers, and other intermediaries. These obligations may deem parties, such as us, to be the legal agent of merchants and therefore may require us to collect and remit taxes on the merchants behalf and take on additional reporting and record-keeping obligations. Any failure by us to prepare for and to comply with these and similar reporting and record-keeping obligations could result in substantial monetary penalties and other sanctions, adversely impact our ability to do business in certain jurisdictions, and harm our business.

The determination of our worldwide provision for income and other tax liabilities is highly complex and requires significant judgment by management, and there are many transactions during the ordinary course of business where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

We have in the past recorded, and may in the future record, significant valuation allowances on our deferred tax assets, which may have a material impact on our results of operations and cause fluctuations in such results.

As of September 30, 2021, we had a valuation allowance for deferred tax assets in the United States and in certain other countries. Our net deferred tax assets relate predominantly to the United States federal and state tax jurisdictions. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified.

We continue to monitor the likelihood that we will be able to recover our deferred tax assets in the future. Future adjustments in our valuation allowance may be required. The recording of any future increases in our valuation allowance could have a material impact on our reported results, and both the recording and release of the valuation allowance could cause fluctuations in our quarterly and annual results of operations.

We may not be able to secure financing on favorable terms, or at all, to meet our future capital needs, and our existing credit facility and our senior unsecured notes contain, and any future debt financing may contain, covenants that impact the operation of our business and pursuit of business opportunities.

We have funded our operations since inception primarily through debt and equity financings, bank credit facilities, finance lease arrangements, and cash from operations. While we believe that our existing cash and cash equivalents, marketable debt securities, and availability under our line of credit are sufficient to meet our working capital needs and planned capital expenditures, and service our debt, there is no guarantee that this will continue to be true in the future. In the future, we may require additional capital to respond to business opportunities, refinancing needs, business and financial challenges, regulatory surety bond requirements, acquisitions, or unforeseen circumstances and may decide to engage in equity, equity-linked, or debt financings or enter into additional credit facilities for other reasons. We may not be able to secure any such additional financing or refinancing on favorable terms, in a timely manner, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Our credit facility contains affirmative and negative covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain inter-company transactions, and limitations on dividends and stock repurchases. The indentures pursuant to which our 2026 Senior Notes and 2031 Senior Notes were issued contain financial and other covenants that restrict or could restrict, among other things, our business and operations. Any debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to operate our business, obtain additional capital, and pursue business opportunities, including potential acquisitions. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under our existing credit facility or our senior notes and any future financing agreements into which we may enter. If not waived, these defaults could cause indebtedness outstanding under our credit facility, our 2026 Senior Notes and 2031 Senior Notes (collectively, the "Senior Notes"), our other outstanding indebtedness, including our 2022 Convertible Notes, 2023 Convertible Notes, 2025 Convertible Notes, 2026 Convertible Notes, and 2027 Convertible Notes (collectively, the "Convertible Notes," and together with the Senior Notes, the "Notes"), and any future financing agreements that we may enter into to become immediately due and payable.

If we raise additional funds through further issuances of equity or other securities convertible into equity, including convertible debt securities, our existing stockholders could suffer dilution in their percentage ownership of our company, and any such securities we issue could have rights, preferences, and privileges senior to those of holders of our Class A common stock.

Changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities and increase our borrowing costs. If our credit ratings are downgraded or other negative action is taken, our ability to obtain additional financing in the future on favorable terms or at all could be adversely affected.

Servicing our Notes may require a significant amount of cash, and we may not have sufficient cash or the ability to raise the funds necessary to settle conversions of the Convertible Notes in cash, repay the Notes at maturity, or repurchase the Notes as required following a fundamental change.

As of September 30, 2021, we had \$4.7 million outstanding aggregate principal amount of 2022 Convertible Notes, \$642.5 million aggregate principal amount of 2023 Convertible Notes, \$1.0 billion outstanding aggregate principal amount of 2025 Convertible Notes, \$575.0 million outstanding aggregate principal amount of 2026 Convertible Notes, and \$575.0 million outstanding aggregate principal amount of 2027 Convertible Notes, \$1.0 billion outstanding aggregate principal amount of 2026 Senior Notes, and \$1.0 billion outstanding aggregate principal amount of 2031 Senior Notes.

Prior to December 1, 2021, in the case of the 2022 Convertible Notes, February 15, 2023, in the case of the 2023 Convertible Notes, December 1, 2024, in the case of the 2025 Convertible Notes, February 1, 2026, in the case of the 2026 Convertible Notes, and August 1, 2027, in the case of the 2027 Convertible Notes, the applicable Convertible Notes are convertible at the option of the holders only under certain conditions or upon occurrence of certain events. Because the last reported sale price of our Class A common stock exceeded 130% of the conversion price for the 2022 Convertible Notes, the 2023 Convertible Notes, and the 2025 Convertible Notes for the relevant period in the calendar quarter ending September 30, 2021, the 2022 Convertible Notes, 2023 Convertible Notes, and 2025 Convertible Notes are convertible at the option of the holders thereof during the calendar quarter ending December 31, 2021. Whether the Convertible Notes of any series will be convertible following such calendar quarter will depend on the satisfaction of this condition or another conversion condition in the future. If holders of the Convertible Notes of a series elect to convert such Convertible Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion, we will be required to make cash payments in respect of the Convertible Notes being converted. Effective October 2018, we revised our prior stated policy of settling conversions of the 2022 Convertible Notes and 2023 Convertible Notes through combination settlement with a specified dollar amount of \$1,000 per \$1,000 principal amount of Convertible Notes. We currently expect to settle future conversions of the 2022 Convertible Notes and 2023 Convertible Notes solely in shares of our Class A common stock, which has the effect of including the shares of Class A common stock issuable upon conversion of the Convertible Notes of such series in our diluted earnings per share to the extent such shares are not anti-dilutive. We will reevaluate this policy from time to time as conversion notices are received from holders of the Convertible Notes.

In addition, holders of each series of Notes also have the right to require us to repurchase all or a portion of their Notes of such series upon the occurrence of a fundamental change (as defined in the applicable indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, or at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest. If the Notes of any series have not previously been converted or repurchased, we will be required to repay such Notes in cash at maturity.

Our ability to make required cash payments in connection with conversions of the Convertible Notes, repurchase the Notes in the event of a fundamental change, or to repay or refinance the Notes at maturity will depend on market conditions and our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. We also may not use the cash proceeds we raised through the issuance of the Notes in an optimally productive and profitable manner. Since inception, our business has generated net losses in most quarters, and we may continue to incur significant losses. As a result, we may not have enough available cash or be able to obtain financing at the time we are required to repurchase or repay the Notes or pay cash with respect to the Convertible Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion or at maturity of the Notes may be limited by law or regulatory authority. Our failure to repurchase Notes following a fundamental change or to pay cash upon conversion of our Convertible Notes (unless we elect to deliver solely shares of our Class A common stock to settle such conversion) or at maturity of the Notes as required by the applicable indenture would constitute a default under such indenture. A default under the applicable indenture or the fundamental change itself could also lead to a default under our credit facility, our other outstanding indebtedness, or agreements governing our future indebtedness and could have a material adverse effect on our business, results of operations, and financial condition. If the payment of our other outstanding indebtedness or future indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay such indebtedness and repurchase the Notes or to pay cash upon conversion of the Convertible Notes or at maturity of the Notes.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

In connection with the issuance of each series of our Convertible Notes, we entered into convertible note hedge transactions with certain financial institutions, which we refer to as the "option counterparties." The option counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our Class A common stock market price and in the volatility of the market price of our Class A common stock. In addition, upon a default by any option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

Our investments in bitcoin may be subject to volatile market prices, impairment, and other risks of loss.

We purchased $50 million in bitcoin in October 2020 and another $170 million in bitcoin in February 2021, and we may make additional bitcoin purchases in the future. The price of bitcoin has been highly volatile in the past and may continue to be volatile in the future, including as a result of various associated risks and uncertainties. For example, the prevalence of bitcoin is a relatively recent trend, and the long-term adoption of bitcoin by investors, consumers, and businesses remains uncertain. Moreover, its lack of a physical form, its reliance on technology for its creation, existence, and transactional validation, and its decentralization may subject its integrity to the threat of malicious attacks and technological obsolescence. If the market value of the bitcoin we hold decreases relative to the purchase prices, our financial condition may be adversely impacted.

Moreover, bitcoin currently is considered an indefinite-lived intangible asset under applicable accounting rules, meaning that any decrease in its market value below our book value for such asset at any time subsequent to its acquisition will require us to recognize impairment charges, whereas we may make no upward revisions for any market price increases until a sale, which may adversely affect our operating results in any period in which such impairment occurs. We have recorded several such impairment charges.

Legal, Regulatory, and Compliance Risks

Our business is subject to extensive regulation and oversight in a variety of areas, all of which are subject to change and uncertain interpretation.

We are subject to a wide variety of local, state, federal, and international laws, regulations, licensing schemes, and industry standards in the United States and in other countries in which we operate. These laws, regulations, and standards govern numerous areas that are important to our business, and include, or may in the future include, those relating to banking, lending, deposit-taking, cross-border and domestic money transmission, foreign exchange, payments services (such as payment processing and settlement services), cryptocurrency, trading in shares and fractional shares, fraud detection, consumer protection, anti-money laundering, escheatment, sanctions regimes and export controls, data privacy, data protection and data security, and compliance with the Payment Card Industry Data Security Standard, a set of requirements designed to ensure that all companies that process, store, or transmit payment card information maintain a secure environment to protect cardholder data.

These laws, rules, regulations, and standards are enforced by multiple authorities and governing bodies in the United States, including federal agencies, such as the FDIC, the SEC, the Consumer Financial Protection Bureau, and Office of Foreign Assets Control, self-regulatory organizations, and numerous state and local agencies, such as the Utah Department of Financial Institutions. Outside of the United States, we are subject to additional regulators. As we expand into new jurisdictions, or expand our product offerings in existing jurisdictions, the number of foreign regulations and regulators governing our business will expand as well. For example, in connection with our proposed acquisition of Afterpay we expect to establish a secondary listing on the Australian Securities Exchange (“ASX”) to allow Afterpay shareholders to trade shares of our Class A common stock via CHESS Depositary Interests on the ASX, which may subject us to additional listing requirements. As our business and products continue to develop and expand, we may become subject to additional rules, regulations, and industry standards. We may not always be able to accurately predict the scope or applicability of certain regulations to our business, particularly as we expand into new areas of operations, which could have a significant negative effect on our existing business and our ability to pursue future plans.

Laws, regulations, and standards are subject to changes and evolving interpretations and application, including by means of legislative changes and/or executive orders, and it can be difficult to predict how they may be applied to our business and the way we conduct our operations, particularly as we introduce new products and services and expand into new jurisdictions.

For example, Cash App includes a feature that permits our customers to buy and sell bitcoin. Bitcoin is not widely accepted as legal tender or backed by governments around the world, and it has experienced price volatility, technological glitches, security compromises, and various law enforcement and regulatory interventions. Certain existing laws also prohibit transactions with certain persons and entities, and we have a risk based program in place to prevent such transactions. Despite this, due to the nature of bitcoin technology and blockchain, it may be technically infeasible to prevent all such transactions, and there can be no guarantee that our measures will be viewed as sufficient. The regulation of cryptocurrency and crypto platforms is still an evolving area, and it is possible that we could become subject to additional regulations. If we fail to comply with regulations or prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences. Further, we might not be able to continue operating the feature, at least in current form, which could cause the price of our Class A common stock to decrease.

We are subject to audits, inspections, inquiries, and investigations from regulators on an ongoing basis. Although we have a compliance program focused on the laws, rules, and regulations applicable to our business, we have been and may still be subject to inquiries, investigations, fines, or other penalties in one or more jurisdictions levied by regulators, including federal agencies, state Attorneys General and private plaintiffs who may be acting as private attorneys general pursuant to various applicable laws, as well as those levied by foreign regulators. In addition to fines, penalties for failing to comply with applicable rules and regulations could include significant criminal and civil lawsuits, forfeiture of significant assets, increased licensure requirements, or other enforcement actions. We could also be required to make changes to our business practices or compliance programs as a result of regulatory scrutiny. In addition, any perceived or actual breach of compliance by us with respect to applicable laws, rules, and regulations could have a significant impact on our reputation as a trusted brand and could cause us to lose existing customers, prevent us from obtaining new customers, require us to expend significant funds to remedy problems caused by breaches and to avert further breaches, and expose us to legal risk and potential liability.

Further, from time to time, we may leverage third parties to help conduct our businesses in the U.S. or abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for any corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Our business is subject to complex and evolving regulations and oversight related to privacy and data protection.

We are subject to laws and regulations relating to the collection, use, retention, privacy, protection, security, and transfer of information, including personal information of our employees and customers. As with the other laws and regulations noted above, these laws and regulations may change or be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible they will be interpreted and applied in ways that will materially and adversely affect our business. For example, the European Union's General Data Protection Regulation ("GDPR") and similar legislation in the United Kingdom ("U.K.") impose stringent data privacy and data protection requirements and provide for greater penalties for noncompliance of up to the greater of 4% of worldwide annual revenue or €20 million or £17.5 million, as applicable. GDPR restricts international data transfers from the EU to other jurisdictions unless the rights of the individual data subjects in respect of their personal data is protected by an approved transfer mechanism, or one of a limited number of exceptions applies. The U.K.'s data protection regime contains similar requirements. When transferring personal data from the EU to other jurisdictions, we utilize standard contractual clauses published by the EU Commission (the "SCCs"). On July 16, 2020, the Court of Justice of the European Union ("CJEU") issued a decision that may impose additional obligations on companies when relying on those SCCs, in addition to invalidating another method that some companies previously relied on for transferring personal data from the European Economic Area ("EEA") to the United States, the EU-U.S. Privacy Shield. This CJEU decision may result in different EEA data protection regulators applying differing standards for the transfer of personal data from the EEA to the United States, and even require ad hoc verification of measures taken with respect to data flows. On June 4, 2021, the European Commission issued new SCCs that account for the CJEU's decision and other developments, which need to be put in place for new contracts involving the transfer of personal data from the EEA to a third country as of September 27, 2021, and, by December 27, 2022, replace previous SCCs included in existing contracts concluded before September 27, 2021. As a result of this CJEU decision or other developments with respect to the legal and regulatory regime affecting cross-border data transfers, we may be required to take additional steps to legitimize impacted personal data transfers. This could result in increased costs of compliance and limitations on our customers and us. More generally, we may find it necessary or desirable to modify our data handling practices and to engage in additional contractual obligations, and this CJEU decision or other legal or regulatory challenges or developments relating to cross-border data transfer may serve as a basis for our personal data handling practices, or those of our customers and vendors, to be challenged and may otherwise adversely impact our business, financial condition and operating results. In the U.K., although the Data Protection Act and legislation referred to as the UK GDPR substantially enacts the EU GDPR into U.K. law, the U.K.'s exit from the EU has created uncertainty with regard to the regulation of data protection in the U.K. and data transfers between the U.K., the EU, and other jurisdictions and could require us to make additional changes to the way we conduct our business and transmit data between the U.S., the U.K., the EU, and the rest of the world. On June 28, 2021, the European Commission announced a decision of "adequacy" concluding that the U.K. ensures an equivalent level of data protection to the GDPR, which provides some relief regarding the legality of continued personal data flows from the EEA to the U.K. Some uncertainty remains, however, as this adequacy determination must be renewed after four years and may be modified or revoked in the interim. Further, in addition to the GDPR, the European Commission has a draft regulation in the approval process that focuses on a person's right to conduct a private life. The proposed legislation, known as the Regulation of Privacy and Electronic Communications ("ePrivacy Regulation"), would replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation is still being negotiated. Most recently, on February 10, 2021, the Council of the EU agreed on its version of the draft ePrivacy Regulation. If adopted, the earliest date for entry into force is in 2023, with broad potential impacts on the use of internet-based services and tracking technologies, such as cookies. Aspects of the ePrivacy Regulation remain for negotiation between the European Commission and the Council. We expect to incur additional costs to comply with the requirements of the ePrivacy Regulation as it is finalized for implementation. In addition, some countries are considering or have enacted legislation addressing matters such as requiring local storage and processing of data that could impact our compliance obligations, expose us to liability, and increase the cost and complexity of delivering our services.

Likewise, the California Consumer Privacy Act of 2018 ("CCPA") became effective on January 1, 2020 and will be modified by the California Privacy Rights Act ("CPRA"), which was passed in November 2020 and becomes fully effective on January 1, 2023. The CCPA and CPRA impose stringent data privacy and data protection requirements for the data of California residents, and provide for penalties for noncompliance of up to $7,500 per violation. It remains unclear how various provisions of the CCPA and CPRA will be interpreted and enforced. More generally, data privacy and security continues to be a rapidly evolving area, and further legislative activity has arisen and will likely continue to arise in the U.S., the EU, and other jurisdictions. Various states in the U.S. have proposed or enacted laws regarding privacy and data protection that contain obligations similar to the CCPA. For example, on March 2, 2021, Virginia enacted the Virginia Consumer Data Protection Act ("CDPA"), and on July 7, 2021, Colorado enacted the Colorado Privacy Act. Both of these are comprehensive privacy statutes that will become effective in 2023 and share similarities with the CCPA, the CPRA, and legislation proposed in other states. The U.S. federal government also is contemplating federal privacy legislation. In addition, laws and regulations directed at privacy, data protection, and data security, and those that have been applied in those areas, may be subject to evolving interpretations or applications. The effects of recently proposed or enacted legislation potentially are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

We have incurred, and may continue to incur, significant expenses to comply with evolving privacy and security standards and protocols imposed by law, regulation, industry standards, shifting consumer expectations, or contractual obligations. In particular, with laws and regulations such as the GDPR in the EU and the CCPA, CPRA, and CDPA in the U.S. imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and we may incur significant costs and expenses in an effort to do so. Any failure, real or perceived, by us to comply with our privacy, data protection, or information security policies, changing consumer expectations, or with any evolving regulatory requirements, industry standards, or contractual obligations could cause our customers to reduce their use of our products and services, disrupt our supply chain or third-party vendor or developer partnerships, and materially and adversely affect our business.

As a licensed money transmitter, we are subject to important obligations and restrictions.

We have obtained licenses to operate as a money transmitter (or as other financial services institutions) in the United States and in the states where this is required, as well as in some non-U.S. jurisdictions, including the European Union, the United Kingdom, and Australia. As a licensed money transmitter, we are subject to obligations and restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies concerning those aspects of our business considered money transmission. Evaluation of our compliance efforts, as well as the questions of whether and to what extent our products and services are considered money transmission, are matters of regulatory interpretation and could change over time. In the past, we have been subject to fines and other penalties by regulatory authorities due to their interpretations and applications to our business of their respective state money transmission laws. In the future, as a result of the regulations applicable to our business, we could be subject to investigations and resulting liability, including governmental fines, restrictions on our business, or other sanctions, and we could be forced to cease conducting business in certain jurisdictions, be forced to otherwise change our business practices in certain jurisdictions, or be required to obtain additional licenses or regulatory approvals. There can be no assurance that we will be able to obtain any such licenses, and, even if we were able to do so, there could be substantial costs and potential product changes involved in maintaining such licenses, which could have a material and adverse effect on our business.

Our subsidiary Square Financial Services is a Utah state-chartered industrial bank, which requires that we serve as a source of financial strength to it and subjects us to potential regulatory sanctions.

On March 1, 2021, Square Financial Services received its deposit insurance from the FDIC and charter approval from the Utah Department of Financial Institutions and became operational. The Federal Deposit Insurance Act requires that we serve as a source of financial strength to Square Financial Services. This means that we are required by law to provide financial assistance to Square Financial Services in the event that it experiences financial distress. In this regard, the FDIC's approval requires that Square Financial Services have initial paid in capital of not less than approximately $56 million, and at all times meet or exceed the regulatory capital levels required for Square Financial Services to be considered "well capitalized" under the FDIC's prompt corrective action rules. The regulatory total capital and leverage ratios of Square Financial Services during the first three years of operation may not be less than the levels provided in Square Financial Services' business plan approved by the FDIC. Thereafter, the regulatory capital ratios must be annually approved by the FDIC, and in no event may Square Financial Services' leverage ratio be less than twenty percent, as calculated in accordance with FDIC regulations. If Square Financial Services' total capital or leverage ratios fall below the levels required by the FDIC, we will need to provide sufficient capital to Square Financial Services so as to enable it to maintain its required regulatory capital ratios. If the FDIC were to increase Square Financial Services' capital requirements, it could have adverse effects on us and Square Financial Services.

The FDIC's approval is also contingent on us maintaining a Capital and Liquidity Maintenance Agreement as well as a Parent Company Agreement. The Capital and Liquidity Maintenance Agreement requires, among other things, that we maintain the leverage ratio of Square Financial Services at a minimum of 20 percent following the first three years of Square Financial Services' operations; maintain a third-party line of credit for the benefit of Square Financial Services acceptable to the FDIC; purchase any loan from Square Financial Services at the greater of the cost basis or fair market value, if deemed necessary by the FDIC or Square Financial Services; and establish and maintain a reserve deposit of $50 million at an unaffiliated third-party bank that Square Financial Services could draw upon in the event that we fail to provide sufficient funds to maintain Square Financial Services' capital ratios at the required levels. The Parent Company Agreement requires, among other things, that we consent to the FDIC's examination of us and our subsidiaries; limit our representation on Square Financial Services' board of directors to no more than 25 percent; submit a contingency plan to the FDIC that describes likely scenarios of significant financial or operational stress and, if we were unable to serve as a source of financial strength, options for the orderly wind down or sale of Square Financial Services; and engage a third party to review and provide periodic reports concerning the effectiveness of our complaint response system. Jack Dorsey, who is considered our controlling shareholder in this context, also agreed to cause us to perform under these agreements. Should we fail to comply with these obligations, we could be subject to regulatory sanctions. In addition, any failure by Square Financial Services to comply with applicable laws, rules, and regulations could also subject us and Square Financial Services to regulatory sanctions. These sanctions could adversely impact our reputation and our business, require us to expend significant funds for remediation, and expose us to litigation and other potential liability.

Square Financial Services is subject to extensive supervision and regulation, including the Dodd-Frank Act and its related regulations, which are subject to change and could involve material costs or affect operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, effected significant changes to U.S. financial regulations and required rulemaking by U.S. financial regulators including adding a new Section 13 to the Bank Holding Company Act known as the Volcker Rule. The Volcker Rule generally restricts certain banking entities (such as Square Financial Services) from engaging in proprietary trading activities and from having an ownership interest in or sponsoring any private equity funds or hedge funds (or certain other private issuing entities). The current activities of Square Financial Services have not been and are not expected to be materially affected by the Volcker Rule. Nevertheless, we cannot predict whether, or in what form, any other proposed regulations or statutes or changes to implementing regulations will be adopted or the extent to which the business operations of Square Financial Services may be affected by any new regulation or statute. Such changes could subject our business to additional compliance burden, costs, and possibly limit the types of financial services and products we may offer.

Square Financial Services is also subject to the requirements in Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve Board's implementing Regulation W, which regulate loans, extensions of credit, purchases of assets, and certain other transactions between an insured depository institution (such as Square Financial Services) and its affiliates. The statute and regulation require Square Financial Services to impose certain quantitative limits, collateral requirements and other restrictions on "covered transactions" between Square Financial Services and its affiliates and requires all transactions be on "market terms" and conditions consistent with safe and sound banking practices.

Our subsidiary Cash App Investing is a broker-dealer registered with the SEC and a member of FINRA, and therefore is subject to extensive regulation and scrutiny.

Our subsidiary Cash App Investing facilitates transactions in shares and fractionalized shares of publicly-traded stock and exchange-traded funds by users of our Cash App through a third-party clearing and carrying broker, DriveWealth LLC ("DriveWealth"). Cash App Investing is registered with the SEC as a broker-dealer under the Exchange Act and is a member of FINRA. Therefore Cash App Investing is subject to regulation, examination, and supervision by the SEC, FINRA, and state securities regulators. The regulations applicable to broker-dealers cover all aspects of the securities business, including sales practices, use and safekeeping of clients' funds and securities, capital adequacy, record-keeping, and the conduct and qualification of officers, employees, and independent contractors. As part of the regulatory process, broker-dealers are subject to periodic examinations by their regulators, the purpose of which is to determine compliance with securities laws and regulations, and from time to time may be subject to additional routine and for-cause examinations. It is not uncommon for regulators to assert, upon completion of an examination, that the broker-dealer being examined has violated certain of these rules and regulations. Depending on the nature and extent of the violations, the broker-dealer may be required to pay a fine and/or be subject to other forms of disciplinary and corrective action. Additionally, the adverse publicity arising from the imposition of sanctions could harm our reputation and cause us to lose existing customers or fail to gain new customers.

The SEC, FINRA, and state regulators have the authority to bring administrative or judicial proceedings against broker-dealers, whether arising out of examinations or otherwise, for violations of state and federal securities laws. Administrative sanctions can include cease-and-desist orders, censure, fines, and disgorgement and may even result in the suspension or expulsion of the firm from the securities industry. Similar sanctions may be imposed upon officers, directors, representatives, and employees.

Cash App Investing has adopted, and regularly reviews and updates, various policies, controls, and procedures designed for compliance with Cash App Investing's regulatory obligations. However, appropriately addressing Cash App

Investing’s regulatory obligations is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address them. Failure to adhere to these policies and procedures may also result in regulatory sanctions or litigation against us. Cash App Investing also relies on various third parties, including DriveWealth, to provide services, including managing and executing customer orders, and failure of these third parties to adequately perform these services may negatively impact customer experience, product performance, and our reputation and may also result in regulatory sanctions or litigation against us or Cash App Investing.

In the event of any regulatory action or scrutiny, we or Cash App Investing could also be required to make changes to our business practices or compliance programs. In addition, any perceived or actual breach of compliance by Cash App Investing with respect to applicable laws, rules, and regulations could have a significant impact on our reputation, could cause us to lose existing customers, prevent us from obtaining new customers, require us to expend significant funds to remedy problems caused by breaches and to avert further breaches, and expose us to legal risk, including litigation against us, and potential liability.

Cash App Investing is subject to net capital and other regulatory capital requirements; failure to comply with these rules could harm our business.

Our subsidiary Cash App Investing is subject to the net capital requirements of the SEC and FINRA. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Failure to maintain the required net capital may subject a firm to limitation of its activities, including suspension or revocation of its registration by the SEC and suspension or expulsion by FINRA, and ultimately may require its liquidation. Currently, Cash App Investing has relatively low net capital requirements, because it does not hold customer funds or securities, but instead facilitates the transmission and delivery of those funds on behalf of customers to DriveWealth or back to the applicable customer. However, a change in the net capital rules, a change in how Cash App Investing handles or holds customer assets, or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements could have adverse effects. Finally, because Cash App Investing is subject to such net capital requirements, we may be required to inject additional capital into Cash App Investing from time to time and as such, we may have liability and/or our larger business may be affected by any of these outcomes.

It is possible that FINRA will require changes to our business practices based on our ownership of Cash App Investing, which could impose additional costs or disrupt our business.

In certain cases, FINRA has required unregistered affiliates of broker-dealers to comply with additional regulatory requirements, including, among others, handling all securities or other financial transactions through the affiliated broker-dealer or conforming all marketing and advertising materials to the requirements applicable to broker-dealers. We do not currently believe that these types of requirements apply to any aspect of our business other than the securities transactions facilitated through the Cash App. It is possible that, in the future, FINRA could require us to comply with additional regulations in the conduct of other activities (i.e., beyond the securities transactions made through the Cash App). If that were to occur, it could require significant changes to our business practices. These and other changes would impose significantly greater costs on us and disrupt existing practices in ways that could negatively affect our overarching business and profitability.

We are subject to risks related to litigation, including intellectual property claims, government investigations or inquiries, and regulatory matters or disputes.

We may be, and have been, subject to claims, lawsuits (including class actions and individual lawsuits), government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings. The number and significance of our legal disputes and inquiries have increased as we have grown larger, as our business has expanded in scope and geographic reach, and as our products and services have increased in complexity, and we expect that we will continue to face additional legal disputes as we continue to grow and expand. We also receive significant media attention, which could result in increased litigation or other legal or regulatory reviews and proceedings.

Some of the laws and regulations affecting the internet, mobile commerce, payment processing, BNPL lending, bitcoin and equity investing, business financing, and employment were not written with businesses like ours in mind, and many of the laws and regulations, including those affecting us have been enacted relatively recently. As a result, there is substantial uncertainty regarding the scope and application of many of the laws and regulations to which we are or may be subject, which increases the risk that we will be subject to claims alleging violations of those laws and regulations. The scope, outcome, and impact of claims, lawsuits, government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings to which we are subject cannot be predicted with certainty. Regardless of the outcome, such investigations and legal proceedings can have a material and adverse impact on us due to their costs, diversion of our resources, and other factors. Plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of litigation, including preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle legal disputes on terms that are unfavorable to us. We may also be accused of having, or be found to have, infringed or violated third-party intellectual property rights. Furthermore, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that we may not choose to appeal or that may not be reversed upon appeal. We may have to seek a license to continue practices found to be in violation of a third party's rights, or we may have to change or cease certain practices. If we are required, or choose to enter into, royalty or licensing arrangements, such arrangements may not be available on reasonable terms or at all and may significantly increase our operating costs and expenses. As a result, we may also be required to develop or procure alternative non-infringing technology or discontinue use of technology, and doing so could require significant effort and expense or may not be feasible. In addition, the terms of any settlement or judgment in connection with any legal claims, lawsuits, or proceedings may require us to cease some or all of our operations or to pay substantial amounts to the other party and could materially and adversely affect our business.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, a combination of confidentiality, invention assignment, and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret, and patent rights, to protect our brand and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our products and services. Effective protection of intellectual property rights is expensive and difficult to maintain, both in terms of application and maintenance costs, as well as the costs of defending and enforcing those rights. The efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on agreements we have in place with employees and third parties that place restrictions on the use and disclosure of this intellectual property. These agreements may be insufficient or may be breached, or we may not enter into sufficient agreements with such individuals in the first instance, in either case potentially resulting in the unauthorized use or disclosure of our trade secrets and other intellectual property, including to our competitors, which could cause us to lose any competitive advantage resulting from this intellectual property. Individuals not subject to invention assignment agreements may make adverse ownership claims to our current and future intellectual property. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and that compete with our business.

We routinely apply for patents in the U.S. and internationally to protect innovative ideas in our technology, but we may not always be successful in obtaining patent grants from these applications. We also pursue registration of copyrights, trademarks, and domain names in the United States and in certain jurisdictions outside of the United States, but doing so may not always be successful or cost-effective. In general, we may be unable or, in some instances, choose not to obtain legal protection for our intellectual property, and our existing and future intellectual property rights may not provide us with competitive advantages or distinguish our products and services from those of our competitors. The laws of some foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States, and effective intellectual property protection and mechanisms may not be available in those jurisdictions. We may need to expend additional resources to defend our intellectual property in these countries, and the inability to do so could impair our business or adversely affect our international expansion. Our intellectual property rights may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting, or otherwise violating them. Additionally, our intellectual property rights and other confidential business information are subject to risks of compromise or unauthorized disclosure if our security measures or those of our third-party service providers are unable to prevent cyber-attacks. Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could have a material and adverse effect on our business.

Assertions by third parties of infringement or other violation by TIDAL of their intellectual property rights could harm our business.

Third parties have asserted, and may in the future assert, that we have infringed, misappropriated, or otherwise violated their copyrights, patents, and other intellectual property rights in connection with the TIDAL streaming service. Our ability to provide our streaming service is dependent upon our ability to license intellectual property rights to audio content, including sound recordings and videos, any musical compositions embodied therein, and any other media assets that artists and/or labels can add or provide with their tracks. Various laws and regulations govern the copyright and other intellectual property rights associated with audio and visual content, including sound recordings and musical compositions. Existing laws and regulations are evolving and subject to different interpretations, and various legislative or regulatory bodies may expand current or enact new laws or regulations. Although we expend significant resources to seek to comply with the statutory, regulatory, and judicial frameworks by, for example, entering into license agreements and complying with the terms and conditions of statutory licenses, we cannot assure you that we are not infringing or violating any third-party intellectual property rights, or that we will not do so in the future. It is difficult to predict whether assertions of third-party intellectual property rights or any infringement or misappropriation claims arising from such assertions will substantially harm our business, operating results, and financial condition. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay significant damages, which may be even greater if we are found to have willfully infringed upon a party's intellectual property; cease exploiting copyrighted content that we have previously had the ability to exploit; cease using solutions that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our solutions; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies, content, or materials; indemnify our partners and other third parties; and/or take other actions that may have material and adverse effects on our business, operating results, and financial condition.

Risks Related to Our Proposed Acquisition of Afterpay

Our proposed acquisition and the integration of Afterpay will subject us to liabilities that may exist at Afterpay or may arise in connection with the completion of the transaction.

Our proposed acquisition and the integration of Afterpay with us may pose special risks, including write-offs or restructuring charges, unanticipated costs, and the loss of key employees. There can be no assurance that the integration will be accomplished effectively or in a timely manner. In addition, the proposed acquisition and the integration of Afterpay will subject us to liabilities (including potential tax liabilities) that may exist at Afterpay or may arise in connection with the completion of the acquisition, some of which may be unknown. Although we and our advisers have conducted due diligence on the operations of Afterpay, there can be no guarantee that we are aware of all liabilities of Afterpay. These liabilities, and any additional risks and uncertainties related to the transaction not currently known to us or that we may currently deem immaterial or unlikely to occur, could negatively impact our business, financial condition and results of operations. Further, Afterpay's business is different in certain ways from ours, and our results of operations may as a result be affected by factors that differ from those currently affecting our results of operations.

The failure to integrate our business and Afterpay successfully in the expected time frame would adversely affect our future results.

The success of our proposed acquisition of Afterpay will depend, in large part, on our ability to realize the anticipated benefits from combining our business with Afterpay. Our ability to realize these anticipated benefits depends on the successful integration of our business with Afterpay, which will be complex and time-consuming.

Potential difficulties that may be encountered in the integration process include the following:

- challenges and difficulties associated with managing the larger, more complex, combined company;
- conforming standards, controls, procedures and policies, and compensation structures between the companies;
- integrating personnel from the two companies while maintaining focus on developing, producing and delivering consistent, high quality products and services;
- consolidating corporate and administrative infrastructures;
- coordinating geographically dispersed organizations;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the proposed acquisition;

- effecting potential actions that may be required in connection with obtaining regulatory approvals;
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the transaction and integrating the companies' operations; and
- our ability to deliver on our strategy, including the ability of the transaction to accelerate growth and to strengthen the integration between our Seller and Cash App ecosystems.

Our and Afterpay's business relationships may be subject to disruption due to uncertainty associated with the proposed acquisition, which could have an adverse effect on our and Afterpay's results of operations, cash flows and financial position.

Parties with which we and Afterpay do business may experience uncertainty associated with the proposed acquisition, including with respect to current or future business relationships with us, Afterpay or the combined company following the completion of the transaction. Our and Afterpay's relationships may be subject to disruption as customers, suppliers and other persons with whom we and/or Afterpay have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us or Afterpay, as applicable, or consider entering into business relationships with parties other than us or Afterpay. These disruptions could have an adverse effect on the results of operations, cash flows and financial position of us, Afterpay or the combined company following the completion of the transaction, including an adverse effect on our ability to realize the expected synergies and other benefits of the transaction. The risk, and adverse effect, of any disruption could be exacerbated by a delay in the completion of or failure to complete the transaction.

Afterpay is subject to a number of regulatory and competitive risks in the BNPL space, and these risks may adversely affect the combined company after completion of our proposed acquisition.

Afterpay operates in a range of jurisdictions including Australia, New Zealand, the United States, Canada, the United Kingdom and certain other European countries. Afterpay's business principally consists of providing financial services, most prominently in the BNPL space, to merchants and consumers, and Afterpay is therefore subject to significant regulation in the jurisdictions in which it operates. Furthermore, with the geographic expansion of Afterpay's business into new markets, it may become subject to additional and changing legal, regulatory, tax, licensing, and compliance requirements and industry standards with respect to BNPL products and other products or services that it may offer.

Regulatory scrutiny or changes in the BNPL space may impose significant compliance costs and make it uneconomical for Afterpay to continue to operate in its current markets or to expand in accordance with its strategy. This may negatively impact Afterpay's revenue and profitability by preventing its business from reaching sufficient scale in particular markets, which would adversely impact the combined company after the completion of the transaction. Afterpay's inability, or perceived inability, to comply with existing or new compliance obligations, including with respect to BNPL products and/or services, could lead to regulatory investigations, which could result in administrative or enforcement action, such as fines, penalties, and/or enforceable undertakings and adversely affect the combined company after the completion of the transaction.

In addition, a number of competitors offer BNPL services similar to Afterpay's. Existing competitors and new entrants in the BNPL space may engage in aggressive consumer acquisition campaigns, develop superior technology offerings or consolidate with other entities and achieve benefits of scale. Such competitive pressures may materially erode Afterpay's existing market share and negatively impact Afterpay's revenue and may hinder Afterpay's expansion into new markets, which could adversely impact the combined company after the completion of the transaction.

Afterpay's business may be adversely affected by risks of default in consumer repayments of borrowings and Afterpay may not be able to maintain its wholesale funding sources or secure additional financing sources on favorable terms.

A major part of Afterpay's operations and earnings depends on revenue generated from BNPL services and Afterpay's ability to recoup the purchase value from consumers of the goods that they have purchased using its BNPL services. Afterpay relies on its technology to assess consumers' repayment capability for each transaction, but there can be no guarantee that such processes will always accurately predict repayments. Miscalculation of consumers' repayment ability or a material increase in repayment failures may adversely impact the results of operations, profitability and prospects of Afterpay and the combined company following the completion of the transaction.

Afterpay partly funds its BNPL services through receivables financing arrangements with financial institutions in Australia, New Zealand, the United States and the United Kingdom (collectively the "Warehouse Facilities"). Afterpay uses the Warehouse Facilities to support Afterpay's funding of purchases by consumers. Collections received by Afterpay from consumers are the primary source of repayments of the Warehouse Facilities. The terms of the Warehouse Facilities contain covenants that may be triggered in certain situations (such as non-repayments on consumer borrowings exceeding certain monetary thresholds or key management resigning), which may negatively impact Afterpay's ability to obtain additional funding under the Warehouse Facilities. If certain events of default occur under the Warehouse Facilities, Afterpay may not be able to draw future funding from those Warehouse Facilities or the debt outstanding under the Warehouse Facilities may be accelerated.

In addition, Afterpay may not be able to extend the financing term or increase the funding capacity of its Warehouse Facilities beyond their existing terms or secure any such additional financing on favorable terms, in a timely manner, or at all. This could diminish Afterpay's capacity to pay merchants in advance of collecting purchase price installments from consumers, and it could significantly slow Afterpay's anticipated growth and may impair its ability to finance its business.

Following the completion of our proposed acquisition of Afterpay, our exposure to fluctuations in foreign currency exchange rates will be increased.

We are currently subject to some foreign currency exchange risk because we conduct business operations in several foreign countries through its foreign subsidiaries or affiliates, which conduct business in their respective local currencies. Afterpay conducts a significant portion of its operations outside of the United States through its subsidiaries or affiliates, which also operate in their respective local currencies. Therefore, following the completion of our proposed acquisition of Afterpay, our international operations will account for a more significant portion of our overall operations than they do presently and our exposure to fluctuations in foreign currency exchange rates will increase. Because our financial statements will continue to be presented in U.S. dollars subsequent to the completion of the transaction, the local currencies will be translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, thereby increasing the foreign exchange translation risk.

Risks Related to Ownership of Our Common Stock

The dual class structure of our common stock has the effect of concentrating voting control within our stockholders who held our stock prior to our initial public offering, including many of our employees and directors and their affiliates; this will limit or preclude your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including many of our executive officers, employees, and directors and their affiliates, held approximately 60.89% of the voting power of our combined outstanding capital stock as of September 30, 2021. Our executive officers and directors and their affiliates held approximately 63.33% of the voting power of our combined outstanding capital stock as of September 30, 2021. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively hold more than a majority of the combined voting power of our common stock, and therefore such holders are able to control all matters submitted to our stockholders for approval. When the shares of our Class B common stock represent less than 5% of the combined voting power of our Class A common stock and Class B common stock, the then-outstanding shares of Class B common stock will automatically convert into shares of Class A common stock.

Transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions. Such conversions of Class B common stock to Class A common stock upon transfer will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, our Class B stockholders retain shares of Class B common stock constituting as little as 10% of all outstanding shares of our Class A and Class B common stock combined, they will continue to control a majority of the combined voting power of our outstanding capital stock.

The market price of our Class A common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- general economic, regulatory, and market conditions, in particular conditions that adversely affect our sellers' business and the amount of transactions they are processing;
- public health crises and related measures to protect the public health;
- sales of shares of our common stock by us or our stockholders;
- issuance of shares of our Class A common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Convertible Notes;
- short selling of our Class A common stock or related derivative securities;
- from time to time we make investments in equity that is, or may become, publicly held, and we may experience volatility due to changes in the market prices of such equity investments;
- fluctuations in the price of bitcoin, and potentially any impairment charges in connection with our investments in bitcoin;
- reports by securities or industry analysts that are interpreted either negatively or positively by investors, failure of securities analysts to maintain coverage and/or to provide accurate consensus results of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial or other projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- rumors and market speculation involving us or other companies in our industry;
- actual or perceived data security incidents that we or our service providers may suffer; and
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The convertible note hedge and warrant transactions may affect the value of our Class A common stock.

In connection with the issuance of each series of our Convertible Notes, we entered into convertible note hedge transactions with the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we sold warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected generally to reduce the potential dilution to our Class A common stock upon any conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Convertible Notes, as the case may be. The warrant transactions would separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the strike price of any warrants unless, subject to the terms of the warrant transactions, we elect to cash settle the warrants.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Notes. This activity could cause or avoid an increase or a decrease in the market price of our Class A common stock.

Anti-takeover provisions contained in our amended and restated certificate of incorporation, our amended and restated bylaws, and provisions of Delaware law could impair a takeover attempt.

Our amended and restated certificate of incorporation, our amended and restated bylaws, and Delaware law contain provisions that could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors and therefore depress the trading price of our Class A common stock.

Among other things, our dual-class common stock structure provides our holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding shares of common stock. Further, our amended and restated certificate of incorporation and amended and restated bylaws include provisions (i) creating a classified board of directors whose members serve staggered three-year terms; (ii) authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock; (iii) limiting the ability of our stockholders to call special meetings; (iv) eliminating the ability of our stockholders to act by written consent without a meeting or to remove directors without cause; and (v) requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors. These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without the approval of our board of directors or the holders of at least two-thirds of our outstanding capital stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws, or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws provide that a state court located within the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers, or other employees to us or to our stockholders; (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law; or (iv) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2021, we issued a total of 77,305 shares of our Class A common stock in connection with the acquisition of a technology company, pursuant to exemptions from registration provided by Section 4(a)(2).

Purchases of Equity Securities by the Company and Affiliated Purchasers

Period	Total number of Shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
July 1 to July 31	8,470 [i]	$	241.85	—	—
August 1 to August 31	3,773 [i]	$	247.26	—	—
September 1 to September 30	1,275,365 [ii]	$	—	—	—
Total	1,287,608	$	243.52 [iii]	—	—

[i] Represents shares that have been withheld by the Company to satisfy its tax withholding and remittance obligations in connection with the vesting of restricted stock awards.

[ii] The Company exercised a pro-rata portion of the 2022 convertible note hedges and of the 2023 convertible note hedges (described in Note 13, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements) to offset the shares of the Company's Class A common stock issued to settle the conversion of certain 2022 Convertible Notes and 2023 Convertible Notes. The note hedges were net shares settled and the Company received 1,981 shares of the Company's Class A common stock from the counterparties in connection with the 2022 convertible note hedges and 1,273,384 shares of the Company's Class A common stock from the counterparties in connection with the 2023 convertible notes hedges.

[iii] Excludes the shares received through the exercise of the note hedges.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**
2.1	Scheme Implementation Deed, dated as of August 2, 2021, by and among Square, Inc., Lanai (AU) 2 Pty Ltd, and Afterpay Limited.	8-K	001-37622	2.1	August 2, 2021
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Stockholders' Equity, and (vi) Notes to Condensed Consolidated Financial Statements.				
104	Cover Page Interactive Data File, formatted in Inline XBRL (included in Exhibit 101)				

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Square, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SQUARE, INC.

Date:	November 4, 2021	By:	/s/ Jack Dorsey
			Jack Dorsey
			President, Chief Executive Officer, and Chairman
			(Principal Executive Officer)
		By:	/s/ Amrita Ahuja
			Amrita Ahuja
			Chief Financial Officer
			(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack Dorsey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Amrita Ahuja, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer

Exhibit 32.1

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack Dorsey, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended September 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: November 4, 2021

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

I, Amrita Ahuja, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended September 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: November 4, 2021

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer